Financial statements as at December 31, 2019

TIRRENO POWER

Tirreno Power Spa

Registered Office: Via Barberini 47, Rome
Share Capital Euro 60,516,142.00 fully paid
VAT no., Fiscal Code and Business Register of Rome no. 07242841000
Administrative Business Registry n. 1019536
Administrative office and Naples facility: Stradone Vigliena 39, Naples
Torrevaldaliga facility: Via Aurelia 2, Civitavecchia (Rome)
Vado Ligure facility: Via A. Diaz 128, Quiliano (Savona)
Renewable Sources Sector: Corso Torino 1, Genoa

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Management report

Introduction

OWNERSHIP STRUCTURE

The Company, at December 31, 2019, is jointly owned by Energia Italiana S.p.A. and Engie Italia S.p.A..

CORPORATE BODIES

BOARD OF DIRECTORS	
Chairman	Giuseppe Gatti
Directors	Alberto Bigi Giovanni Chiura Aldo Chiarini Angelica Orlando Jurgen Fryges Antonio Cardani * Roberto Garbati *
BOARD OF STATUTORY AUDITORS	
Chairman	Riccardo Zingales
Statutory Auditors	Gianluca Marini Maurizio Lauri
Alternate auditors	Hinna Danesi Goffredo Panagia Giuseppe
INDEPENDENT AUDITORS	
	EY SpA

** Independent directors, as set forth in the Company's Articles of Association.*

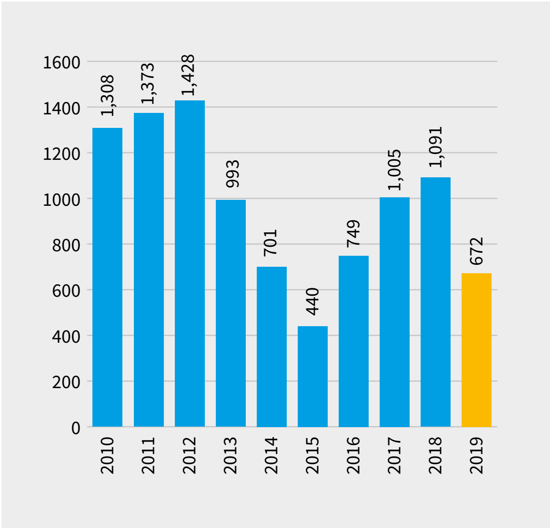
Focus on Results

As regards the result for 2019, Tirreno Power recorded a significant improvement with respect to the previous year. The company recorded net income of Euro 167,099 thousand, the Gross operating profit came to Euro 213,180 thousand, compared to Euro 136,344 thousand realised in 2018; at operating level, the result achieved, which in the 2018 financial statements, was Euro 60,845 thousand, also recorded growth, amounting to Euro 155,641 thousand as at December 31, 2019.
These results are attributable to the opportunities seized on the market in the more profitable time brackets and, in particular, the excellent results recorded on the Dispatching Services Market, despite an essentially stable market scenario and an increase in the costs of CO_2 emission rights, making gas-powered plants more competitive than coal ones.
In 2019, Tirreno Power decided to enter a public rating process with Cerved Rating Agency, which draws up and monitors the ratings issued pursuant to Regulation (EC) 1060/2009 and subsequent amendments and additions; these ratings are an opinion of the credit standing and encapsulate the entity's capacity to meet its obligations in a timely manner.
In November 2019, Cerved Rating Agency, based on the data of the interim financial statements as at June 30, 2019, assigned Tirreno Power S.p.A. a public rating of B1.2.
With the objective of presenting the results and analysing the financial structure, the tables below contain some "alternative performance indicators" which management feels are most representative of the economic and financial results that are contained in the reclassified schedules that differ from those set forth in the international accounting standards adopted. The section "Operating performance during the year" outlines the criteria used to calculate these indicators. The data, unless otherwise specified, may be directly deduced from the financial statements.

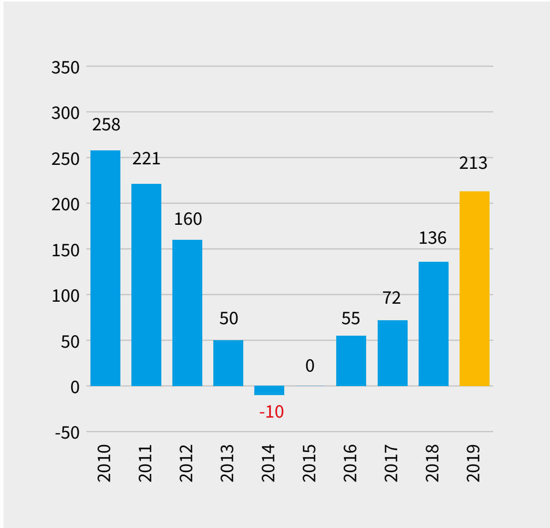
	12.31.2019	12.31.2018	CHANGE %
Income statement data (millions of Euro)			
Total revenues	672.0	1,090.7	-38.4%
• *of which revenues from energy sales*	665.2	1,086.5	-38.8%
Gross operating profit	213.2	136.3	56.4%
EBITDA (includes commodity derivatives)	210.1	133.2	57.8%
EBIT	155.6	60.8	155.8%
Net income for the period	167.1	40.2	315.7%
Equity and financial data (millions of Euro)			
Investments in fixed assets	24.5	13.5	81.3%
Cash flow from operating activities	164.7	66.5	147.5%
Shareholders' equity	393.4	226.3	73.9%
Net capital employed	697.9	670.6	4.1%
Net financial debt	304.5	444.3	-31.5%
Debt/Equity	0.8	2.0	-60.6%
Operating data			
Energy sold (GWh)	8,240	14,601	-43.6%
Energy Injected (GWh)	5,197	5,915	-12.1%
Average amount (units)	231.9	236.4	-1.9%
Economic/financial indicators			
Unit revenue from energy sale (€/MWh)	80.7	74.4	8.5%
ROS (Return on Sales)	23.2%	5.6%	315.2%
ROI (Return on Investment)	22.7%	9.0%	153.0%
Market indicators (annual averages)			
Price of Brent crude oil ($/barrel) (source “Platt’s”)	64.30	71.04	-9.5%
US Dollar/Euro exchange rate (source UIC)	1.120	1.181	-5.2%
1-month Euribor @ 365 average (source Il Sole 24 Ore)	-0.401%	-0.370%	8.3%

The trend in the main profit indicators of the last 10 years is indicated below:

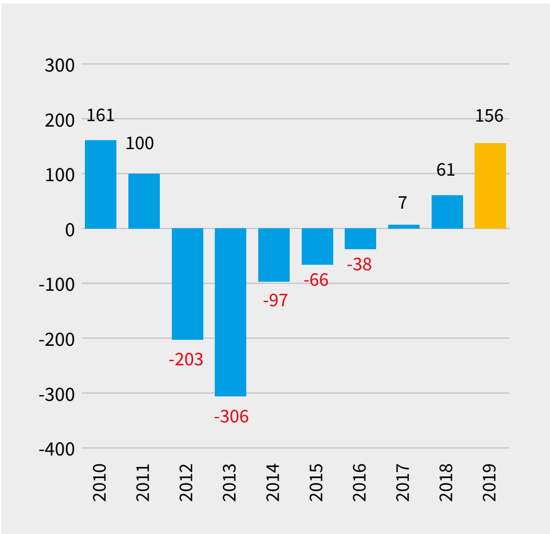
Revenues



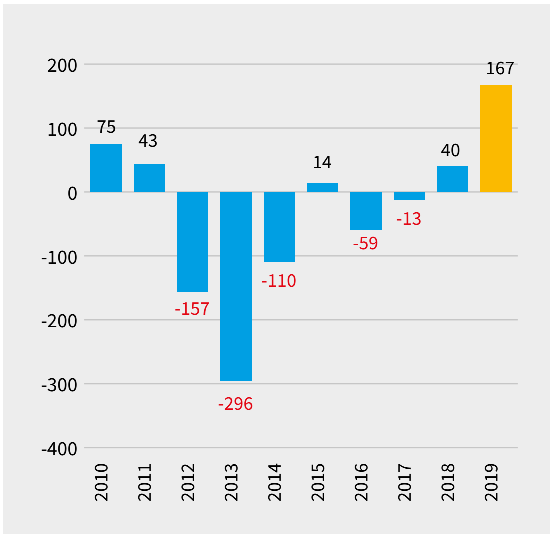
Gross operating profit



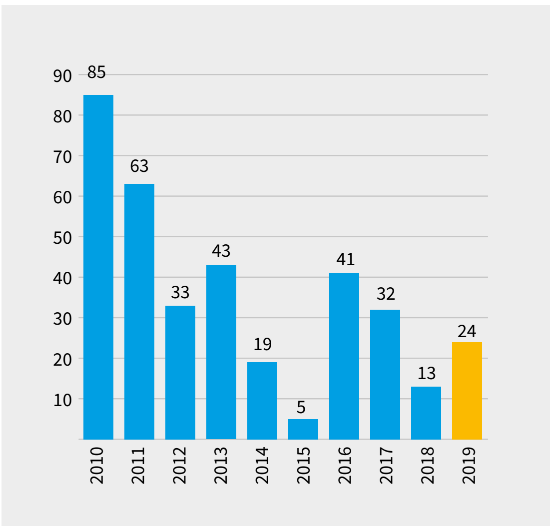
EBIT



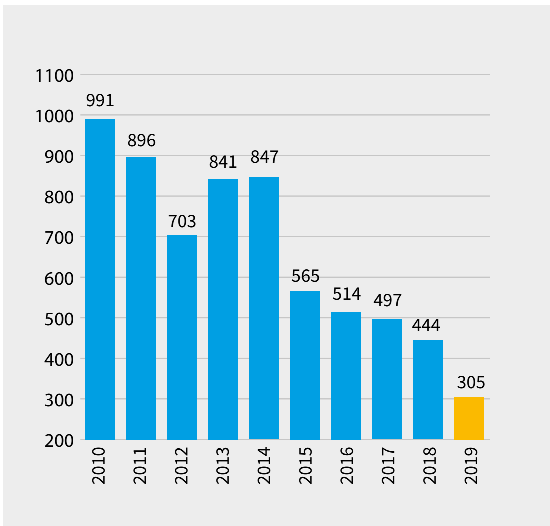
Net income



Investments



Net financial debt



OPERATING STRUCTURE

The Company is active in the production and sale of electricity through the management, in Italy, of some thermoelectric and renewable plants along the Tyrrhenian Sea area.
The following table summarises the main characteristics of such facilities:

GROSS REFERENCE CAPACITY - COMMERCIAL OPERATION (MW)		
PRODUCTION UNITS	AS AT 12.31.2019	REGION
Vado Ligure plant	793	Liguria
Torrevaldaliga plant	1,176	Lazio
Naples plant	401	Campania
Thermoelectric total	**2,370**	
Total - Renewable Sources	**75**	Primarily in Liguria
Total	**2,445**	

With its production plants, the Company is able to generate electricity with high flexibility and competitiveness:

- the thermoelectric production units consist of 4 gas-powered combined-cycle plants;
- the renewable sources include 18 hydroelectric plants (divided equally between "run-of-river" and "power regulation" stations) located along the entire Ligurian Apennines.

As already reported in the previous financial statements, on June 6, 2016, the Company's Board of Directors held that the conditions did not exist to allow a future return to service of coal-fired units 3 and 4 of the Vado Ligure plant, for a total capacity of 660 MW, that were already discontinued since they were subject to a seizure order from the Court of Savona starting from March 2014.
Tirreno Power - fully aware that the definitive cessation of activities in the coal-fired plants in Vado Ligure deprives the area of one of the most important industrial companies and employers - has launched an initiative for the re-industrialisation of the site, aimed at encouraging the installation of new companies with the objective of contributing to the search for solutions that may provide future jobs for workers and growth prospects for the area.
After having segmented the functional areas for operation of the gas-powered plant, the initiative made an area of approximately 30 hectares available, initially divided into five lots.
In August 2018, the company Vernazza Autogru had formalised an interest in purchasing - in a lump sum - an area of roughly 27 hectares for a full payment of around Euro 3 million based on the 'as is' proviso, according to which Vernazza Autogru will acquire such areas, also assuming the responsibility for all the necessary demolitions based on a timetable agreed between the parties. In the absence of said obligation, the Company will carry out said demolitions at the expense of Vernazza Autogru.
The parties then agreed on a process for transfer of the areas, whose main stages were: the signing of the binding purchase proposal in Rome on August 8, 2018 and, subsequently, the signing of the preliminary sale agreement, on October 12, 2018, with the simultaneous collection of the agreed down payments.
On March 6, 2020, the final deed of sale was signed. The Parties, amending the obligations assumed in the aforementioned preliminary contract, agreed that Tirreno Power is exonerated from the obligation regarding the rectification of the two streams called Rio Tovi and Rio Tana which cross through the area subject to sale, work which will therefore be carried out under the responsibility and at the expense of the Purchaser. Due to the above, the parties agreed to reduce the sale price by approximately Euro 2.7 million.
In January 2019, the company Vernazza Autogru then submitted an additional purchase proposal to the one above, also for the purchase of the areas (around 2 hectares) on which simple struc-

tures and buildings have been erected; the offer is subject to conditions precedent.
On December 17, 2019, following the verification of the conditions precedent, Tirreno Power and Vernazza Autogru stipulated the definitive contract for the sale of the areas, subject to the supplementary proposal, at an agreed price of Euro 100 thousand, again based on the “as is” proviso, i.e. with dismantling costs borne by the purchaser.
Again as regards the re-industrialisation of the Vado Ligure site, note should be taken of the following events:

1. in April 2019, as part of the Framework Agreement in place between Tirreno Power and the University of Genoa, an Implementing Agreement was signed with the DIME - Department of mechanical, energy and operational engineering and transport - Faculty of Engineering, in order to construct a research laboratory and launch educational and training activities in the energy, industrial plant engineering and production process monitoring sectors, in the areas provided by the company.
2. As part of the re-industrialisation project, on 12.02.2019, the company Autoliguria presented Tirreno Power with an irrevocable proposal for a lot outside the perimeter of the Vado Ligure plant regarding an area covering approximately 18,300 square meters, composed of 12,739 square metres free and ready for sale and 5,560 square meters available for free loan for use. This proposal, amounting to Euro 712,000 based on the “as is” proviso, was accepted by the BoD and the purchaser made a down payment of Euro 100,000, with the agreement to sign the Definitive Sale Contract within 90 days of December 16, 2019, the date of acceptance of the irrevocable proposal.

INFORMATION REGARDING THE CRIMINAL PROCEEDINGS OF THE VADO LIGURE SITE

It should be noted that criminal proceedings were opened in 2013 by the Public Prosecutor at the Court of Savona due to an environmental disaster, which saw some senior management and employees of Tirreno Power as suspects, for the offences set out in article 434, paragraph 2 and article 449 of the Code of Criminal Procedure. Tirreno Power was served notice, on November 15, 2018, of the court summons as the civilly liable party in the criminal proceedings. Some of the main phases of said proceedings are reported hereunder.

- On March 11, 2014 the G.I.P. (Preliminary Judge) of the Court of Savona had ordered and executed the preventive seizure of the VL3 and VL4 coal units.
- On June 18, 2015 Tirreno Power was informed of the notice of conclusion of preliminary investigations, pursuant to art. 415 bis of the Code of Criminal Procedure. In fact, on October 26, 2016, the Public Ministers filed a request to the Office of the Preliminary Judge to postpone the proceedings for 26 defendants charged with culpable disaster pursuant to art. 434, paragraph 2 and art. 449 of the Code of Criminal Procedure. With respect to the previous notice of conclusion of the preliminary investigations, notified on June 17, 2015, inter alia, the charge of multiple manslaughter was removed, with the formation of new proceedings no. 1753/16- 21 R.G.N.R. (General Criminal Records Registry). For the latter proceedings, on October 27, 2018, the Preliminary Judge ordered the dismissal of the case pursuant to art. 409 of the Code of Criminal Procedure.
- On January 28, 2017, the Preliminary Judge of the Court of Rome issued a judgment of dismissal pursuant to articles 409 and 410 of the Code of Criminal Procedure, upholding the request from the Public Prosecutor at the Court of Rome, in relation to the offence of abuse of office contested in the notice of closing of the preliminary investigations of July 20, 2016 vis-a-vis institutional and technical top management of the Liguria Region, the Province of Savona and the Municipalities concerned, as well as against an executive of Tirreno Power, abuse alleged-

ly committed in order to obtain the AIA for the VL3 and VL4 coal-powered plants.

- At the preliminary hearing notice on January 25, 2018, the Preliminary Judge admitted as civil parties in the proceedings the Environmental Associations (Medicina Democratica-Movimento per la Salute, Greenpeace Onlus – Associazione Uniti per la Salute, Legambiente Associazione Onlus, Associazione WWF-O.N.G. Onlus, Associazione A.N.P.A.N.A) that had filed their appearance on October 26, 2017 and the Ministry of Environment and Land and Sea Protection (hereinafter also MATTM), appearing on November 30, 2017, while it excluded the appearance of three private citizens whose notice of appearance was filed on January 25, 2018.
- Tirreno Power was served notice, on November 15, 2018, of the court summons as the civilly liable party in criminal proceedings no. 5917/13. This provision of the preliminary judge upholds the request of the MATTM (Ministry of Environment and Land and Sea Protection) for the summons of the civilly liable party of July 2, 2018. By means of said summons, Tirreno Power was therefore called, independent of its appearance in the proceedings, in the case of sentencing with a definitive judgment, to be jointly and severally liable with the defendants for the damages caused to the civil parties as a result of the culpable disaster (environmental and health) they are charged with. Subsequently, by means of deed of November 21, 2018, filed at the Court on December 18, 2018, Tirreno Power appeared at the proceedings as the civilly liable party in order to present its defence in the criminal proceedings and oppose the effects that any sentencing would have in the separate civil proceedings pursuant to articles 651 et seq.. It should be noted that the Public Prosecutor has not challenged any of the predicate offences set forth in Legislative Decree 231/2001, therefore, no pecuniary sanction or ban can be imposed on Tirreno Power, based on the current charge.
- At the hearing on December 11, 2018, the Judge, having ascertained the completion of the notification of a decree of committal for trial, therefore ordered a renewal of the summons, adjourning the proceedings to January 31, 2019. At the same hearing, some defence lawyers present in the courtroom pre-announced and subsequently formalised the appearance of the new civil parties, namely the ADOC (consumer protection association) associations, Art. 32, Codacons, the Ministry of Health, plus 48 natural persons. As things stand, they have submitted a claim for compensation: Associazione Uniti per la Salute for a sum of no less than Euro 120 thousand, Cittadinanza Attiva for a sum of no less than Euro 50 thousand, Medicina Democratica for a sum of no less than Euro 250 thousand and 48 natural persons for a total sum of no less than Euro 1,160 thousand. It should be noted that the summons received from the MATTM and the Ministry of Health do not contain an indication of a specific request for compensation, but a reserve for quantification of the damages to be defined following the discussion by the civil parties.

The proceedings are currently at the preliminary phase. In particular, during the course of the twelve hearings held in 2019 and in the first few months of 2020, the witness evidence of the texts indicated in the associated list presented by the Public Minister was examined, with the exception of the technical consultants, and the examination of the texts of the civil parties commenced. A further seven hearings were scheduled, until the end of July 2020, to continue the preliminary investigation.
As of today, also taking into account the opinion of the legal advisors assisting the company, since the preliminary investigation has still not addressed the technical issues which are relevant for the purposes of the charge and the discussion of the civil parties has still not reached an outcome, the risk of being the losing party must be considered possible and the compensation for which the Company is liable, deriving from the pending criminal proceedings cannot be forecast.

Market scenario

THE ENERGY PRODUCT MARKETS

In 2019, all energy commodities, with the exception of CO_2, marked significant decreases in value, recording an average below that of 2018.
The price of Brent crude oil (ARA Spot Average), recorded a decrease compared to 2018, down from 71.04 $/barrel in 2018 to 64.30 $/barrel in 2019, with a high of 71.26 $/barrel reached in April (source: *"Platt's Crude Oil Marketwire").*
The average price of coal fell compared to 2018, down from 91.94 €/ton to 60.99 €/ton in 2019 (source: *"Argus" index API#2 Northwest Europe Cif ARA).*
The average price of natural gas fell when compared to 2018, down from 24.18 €/MWh to 16.04 €/MWh in 2019 (source: *PSV "Heren" index).*
By contrast, the average price of CO_2 rose when compared to 2018, up from 15.91 €/ton to 24.90 €/ton in 2019 (source: *"ICE" EUA Futures index).*
The average US dollar/Euro exchange rate in 2019 was 1.11960 €/$, a drop of -5.2% compared to 2018, when it stood at 1.18149 €/$ (source: *Italian Exchange Office).*

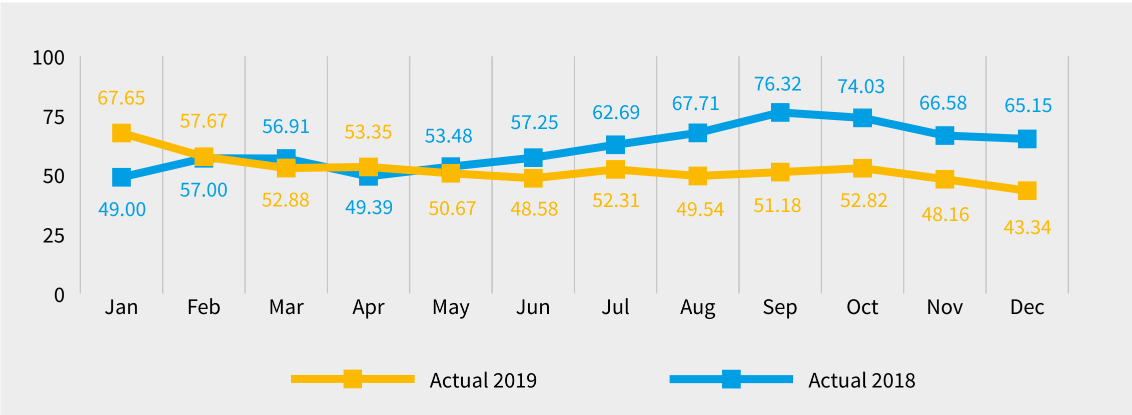
PRODUCTION AND DEMAND FOR ELECTRICITY IN ITALY

In 2019, the aggregate value of net production (283.9 TWh) rose (+1.4%) compared to 2018, while the value of electricity supply (319.6 TWh) recorded a decrease of 0.6% over 2018.
Worthy of note is the decrease in hydroelectric production (-3.0 TWh, -5.9%), and the increase in pumping (+0.01 TWh equal to +4.3%); the foreign balance fell by 5.7 TWh (-13.1%), while wind power (+2.5 TWh, +14.3%); photovoltaic production (+2.1 TWh equal to +9.3%); and thermoelectric production (+2.5 TWh equal to +1.3%) recorded increases.
(source: Terna - Monthly Report on the Electricity System - Final balance December 2019)

TREND IN ENERGY SALES PRICES

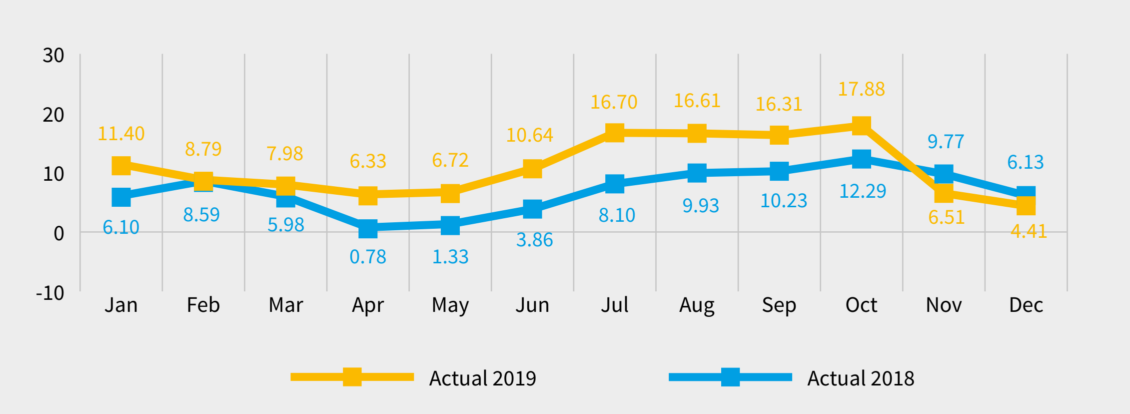
In 2019, the arithmetic mean price of energy on the Power Exchange (PUN) amounted to 52.35 €/MWh, down by 12% compared to the 61.29 €/MWh recorded in 2018 (source: GME).

Single National Price - PUN (€/MWh)



The lower cost of gas, despite the increase in the price of CO_2, determined a generally higher monthly Clean Spark Spread than 2018 (+3.93 €/MWh on average).

Clean Spark Spread Formula (€/MWh)



The Clean Spark Spread represents the electricity sale margin including variable costs (gas and CO_2).

The presence of a large installed photovoltaic capacity, totalling 17.8 GW (source: GSE-ATLASOLE), helps to create a price squeeze in the central hours; the price of the time profile has an average pattern that has a first peak between the hours of 8 and 11 and a second more marked peak between the hours of 18 and 22.

Legislative and regulatory framework

The following notes report the main legislative and regulatory events in 2019, which affect Tirreno Power's reference markets.

EUROPEAN REGULATIONS RELATING TO THE ELECTRICITY SYSTEM

Some European electricity system regulations are in the process of being implemented, regarding balancing in particular. In particular, this relates to the European regulation on electricity balancing (Balancing Guidelines), which makes provision for the harmonisation of European balancing markets with the definition of common regulations for the sharing of dispatching resources between the different transmission network operators (new exchange platforms).
These regulations and their developments are acknowledged in the recent documents published by ARERA and by Terna as part of the reforms being overseen in relation to electricity balancing (see subsequent notes).
In 2019, the European Council definitively approved the last of the four legislative acts of the eight making up the "Clean Energy Package for all Europeans" launched in November 2016 by the Commission. In particular, the Council approved the new Regulation and the new directive on the electricity market, and the regulations on risk preparedness in the electricity sector and on the Agency for the Cooperation of Energy Regulators (ACER). The approvals augment those, already issued previously, of the regulation on governance of the Energy union and the directives on efficiency, renewable sources and building energy performance.
The adoption of the four texts represents the final phase of the legislative process. The acts entered into force on July 4. As regards the approved texts, the new legislative framework for the electricity market gives more rights to consumers and makes it easier for them to participate in the market as active customers, introduces new rules on exchanges and balancing responsibility which will allow the system to adapt to the variable generation of energy from renewable sources and establishes a new framework of capacity mechanisms with an emissions limit of 550 grams of CO_2 from fossil fuels per kWh of electricity.
By contrast, the new Regulation on the ACER updates the Agency's role and functioning, reforming the tasks and responsibilities of the director and the committee of regulators. The support role which it plays in the regulatory supervision of the European entities operating in the energy sector was also reinforced.

ENERGY POLICY: THE NATIONAL ENERGY STRATEGY AND THE NATIONAL INTEGRATED ENERGY AND CLIMATE PLAN

At the end of 2017, the Italian Government published the National Energy Strategy document, which defined the national lines of development regarding energy, updating the first NES document published in 2013.
As per international guidelines, the NES was replaced by the scheme of the National Integrated Energy and Climate Plan which defines the scenario and Government programme regarding energy policy in respect of horizon 2030. The Plan was first sent to the European Commission in December 2018 (as set forth in the Clean Energy Package).
For the electricity sector, the scheme of the Plan makes provision for:

- the potential criticalities in terms of adequacy for the national system from 2025, given the confirmed phase-out of coal (the scenario forming the basis of the document sets out that, at that date, the adequacy threshold calculated on the basis of the levels of demand and available resources including imports could be exceeded);
- the planned launch of the capacity market in 2019, after a phase of notification at the European Commission to supplement some Emission Performance Standard (EPS) mechanisms.

In January 2020, following a consultation process held in 2019, the definitive version of the National Integrated Energy and Climate Plan was sent to the European Commission, in implementation of Regulation (EU) 2018/1999, hence completing the process commenced in December 2018.

EVOLUTION OF THE WHOLESALE ELECTRICITY MARKET REGULATIONS

LAUNCH OF THE CAPACITY MARKET

In 2017, the new mechanism for the remuneration of electricity production capacity (already set forth in ARERA resolution ARG/elt 98/11) was formally notified by the Ministry of Economic Development ("MiSE"), with the involvement of the Authority, at the Directorate-General for Competition of the European Commission. In February 2018, the Commission approved the Italian mechanism (and that of the other 5 countries) for 10 years, deeming it necessary for the adequacy and safety of the system. The decision (published in the middle of April 2018), among the many guidelines, required our country to make provision for participation in the foreign capacity and demand mechanism. It also provided indications for the ranges of the price caps for supplies via auction (expressed in MW/year): 25k€-45k€ for existing plants and 75k€-95k for new entrant plants.
Following the approval, in March 2018, Terna put a new regulation framework up for consultation, which supplements the modifications requested by the Commission and provides a new regulation for scheduled plant maintenance, for guarantees and for the calculation of the unforced capacity (UCAP), as well as the new regulations for the participation of consumption units and foreign resources.
Subsequently, in adjustment and acknowledgement of the European Commission's decision, ARERA published resolution 261/2018/R/eel which updates the resolution that established the capacity market (ARG/elt 98/2011). The resolution acknowledges both the guidelines of the Commission, and those of the Ministry and also supplements the regulation based on the consultations that took place during 2017 (713/2016/R/eel and 592/2017/R/eel). More specifically, the resolution makes provision for: the start of the phase of first implementation with the possibility of also establishing planning periods of less than one year, the abolition of the minimum premium that can be recognised on existing capacity, the introduction of the minimum investment threshold requested by the Commission for new entrants, the opening of the capacity market to active participation of demand, of non-programmable renewable generation and foreign resources.
In March 2019, as set out in the National Integrated Energy and Climate Plan, the Ministry of Economic Development notified the DG Competition of the European Commission of some changes to the capacity market scheme, with reference to the environmental and authorisation requirements for the participation in auctions. On June 14, 2019, the Commission authorised the aforementioned changes, deeming them to be compatible with EU rules on State aid.
By means of Ministerial Decree of June 28, 2019, the Ministry of Economic Development formally launched the mechanism by approving a new version of the regulation, which acknowledges the emissions limits notified and approved by the Commission. The Decree established the performance of auctions by 2019, with expected delivery in 2022 and 2023.
In September, by means of resolution 363/2019/R/eel, the ARERA defined the economic parameters of the auctions, setting the maximum value of the premium (cap) which can be recognised on new productive capacity at 75,000 €/MW/year and 33,000 €/MW/year for existing capacity. The minimum investment amounts was also set at 209,000 €/MW and the method of calculating the strike price was defined.
The auctions, for the delivery years 2022 and 2023 were held in November, and Tirreno Power was awarded all the capacity offered, equal to 1,875 MW for each year, at the price envisaged for existing capacity.
In 2020, consultations are expected to commence on the mechanism that will regulate the auctions relation to delivery in 2024 onwards.

SIMPLIFICATION LAW DECREE - HYDROELECTRIC CONCESSIONS

With reference to the changes introduced by means of Law Decree no. 135 of December 4, 2018, regarding the simplification and support for development ("Simplification Law Decree"), converted to law in February 2019, it should be noted that some amendments were introduced to the regulatory framework of hydroelectric concessions. The main changes concern: (i) the extension against consideration of the concessions already expired until 2023, (ii) the regulation of the reassignment of the concessions upon their expiry; (iii) the system for the compensation of the outgoing concession holder for the transfer of assets connected with the hydroelectric concession. These are regulations which establish a series of general principles and which will be subject to implementing provisions by the Regions within the term set for 2020, and the competent authorities for the purpose of detailed regulation of the renewals of concessions in observance of the principles dictated by the Constitution. The company analysed the possible consequences of applying the reform which, at the current state of play, pending the above implementing decrees, do not appear to have a significant impact. It should be pointed out that the hydroelectric concessions currently held by the company which fall under the scope of application of the provision in question, will reach their natural expiry in 2029.

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Additional legislative or regulatory events whose impacts for the company cannot be estimated at present are reported below.

THE REFORM OF ELECTRICITY DISPATCHING AND TERNA PILOT PROJECTS

By means of Resolution 393/2015/R/eel, the Authority launched a comprehensive reform of electricity dispatching (so-called project RDE), which incorporates a series of procedures, some of which have already been in place for some time. The project is in place for the long-term, both because the framework of reference European regulations is still not definitive, and because the development times of some measures and their implementation are fairly broad.

In implementation of this reform project, in 2016, ARERA issued a series of consultation documents targeted at defining the entities authorised to supply resources in the Dispatching Services Market (MSD) and updating the rules for the valuation of imbalances.

The year 2017 saw the continuation of the process of definition of the rules through a series of provisions and consultations. More specifically, as regards the regulation of the authorisation on the MSD (Dispatching Services Market), in June 2017, by means of resolution 300/2017/R/eel, the Authority defined a project for the first-time opening of the market to electricity demand, to production units not already authorised and to storage systems. Within the domain defined by the new regulation, Terna launched a pilot project which makes provision for auctions for the forward procurement of resources provided by consumption units (UVAC - consumption enabled virtual units) for a few months in 2017 (auctions relaunched also in 2018) and some market zones. The resolution was subject to further application, with the start of a pilot project which defines the methods for the authorisation of production units not currently authorised (UVAP - production enabled virtual units - with capacity of less than 10 MW).

As part of the process cited, in March 2018, Terna published the Regulation regarding the pilot project for the authorisation of the relevant production units (UPR-power exceeding 10MW) not mandatorily authorised for the dispatching services market. By contrast, in May 2018, it put up for consultation the pilot project for the provision of the frequency primary regulation service through production units integrated with storage systems (UPI), in order to promote the development of electricity storage projects. Lastly, in June of the same year, the authorisation for the MSD of the Mixed Aggregate Virtual Units (UVAM) was put up for consultation, which will include in a single aggregate both the Virtual Consumption Enabled Units and Virtual Mixed Aggregate Units. The project was approved by ARERA in September 2018 and makes provision for the possibility of aggregation throughout the country. The first auctions were held in December 2018 and the project is expected to be completed in 2020.

In addition, again in December 2018, ARERA approved the pilot project on UPIs - integrated production units - (see above). The initiative provides for the connection of batteries to a productive unit to provide greater flexibility in the release of the Primary Reserve service. The project will last until December 20, 2023 (5 years from publication of the measure for a maximum of 30MW throughout the country).

Again in December 2018, ARERA approved the pilot project proposed by Terna for voltage regulation solely in the Brindisi area. The project aims to resolve network problems in the area and has assigned, with a 10-year contract, the provision of reactive power from dedicated systems for 250 MVAr of power.

Lastly, in December 2019, Terna published the consultation document on the Fast Reserve Unit, a project which targets the supply of the ultra-fast reserve, mainly by storage systems (water or electro-chemical). The project will last about 3/4 years in which the capacity awarded will have some supply obligations during particular periods of the year defined by Terna. The entry into operation of the plants incentivised by the project is currently set for January 2022.
At the end of July 2019, the consultation on the Integrated Text on Electricity Dispatching (TIDE) was published. The document aims to define a new organic framework of rules for the electricity dispatching service and its main objectives are:

- full integration in the electricity system of renewable sources, of distributed generation, storage systems, aggregators and consumers (the latter also in the role of producers);
- the integration of Italian markets with European ones through a number of cross-border projects (see below).

The regulations consulted also include the potential separation between commercial negotiations and physical programming, the possible introduction of negative prices to the energy markets, the possible implementation of the marginal price on the MSD (electricity dispatching market), the possibility of a nodal system for the management of imbalances, the revision of the segmentation of ancillary services.
Following this first general and framework document, fresh consultations are expected in the first few months of 2020. The stated objective of the reform is the issuing of a new organic regulation in 2022.

AMENDMENTS TO THE TERNA NETWORK CODE

By means of resolution 386/2018/R/eel, ARERA approved the new zonal division of the electricity market from 2019, which eliminates the limited hubs of Foggia, Brindisi and Priolo (with the attribution of the associated dispatching points to the adjacent physical zone) and the shifting of the Gissi dispatching point (formerly in the Foggia hub) which will be allocated to the Centre-South zone. In November 2018, Terna modified the Network Code to acknowledge the new market zonal configuration.
In acknowledgement of the European regulation known as the Balancing Code, in June 2018, Terna deliberated on modifications which make provision for the integration of new continuous-trading electricity markets (both intraday and balancing) and the prospect of adjustment of current auction markets in terms of both hours and products (underpinning the reform is the need to bring the close of the markets closer to the moment of delivery and to standardise the products traded). The modifications also envisage the harmonisation of the national markets with the European balancing markets, which will materialise also thanks to the TERRE project (Trans European Replacement Reserves Exchange), a plan launched in 2013 as part of ENTSO-E for the design, development, implementation and management of a platform for the replacement reserve (RR) exchange between different countries.
In October 2018, by means of resolution 535/2018/R/eel, ARERA partially approved the modifications proposed by Terna, in acknowledgement of the EU Balancing Code (project X-Bid + TERRE). Initially, Terna declared that the Terre Project was to be launched by the end of 2019, while, for the continuous-trading electricity market (X-bid project), the start date has already been postponed until the middle of 2020.
Subsequently, by means of a letter of July, Terna requested an extension to the start of participation in the RR platform, granted by ARERA by means of resolution 438/2019/R/EEL. The new expiry was set at January 15, 2021.

INCENTIVES FOR RENEWABLE SOURCES

On December 31, 2017, the incentive period regulated by Interministerial decree of June 23, 2016 for non-photovoltaic renewable sources concluded.
For the start of the new incentive period, in September 2018, the Ministry of Economic Development published a draft decree. At the end of June 2019, the European Commission approved this scheme and, in the first few days of July, the provision was signed by the Ministry of Economic Development and the Environment and sent to the Court of Auditors for verification. The Decree was published in August, followed by the GSE's publication of the operating regulation for the participation in auctions. The first competitive procedure of the new incentive mechanism was held on September 30 last year.

The Decree introduces some changes with respect to the previous system, including:

- 7 technology neutral auctions on a four-monthly basis for plants >1 MW (wind+photovoltaic and water+geothermal+gas landfill);
- assignment to winners of an incentive independent from the electricity price (two-way contract for difference), with the possibility of withdrawal;
- extension of the price drop approach to the registration system (accessible for plants <1 MW);
- elimination of direct access for small initiatives (apart from all-inclusive the tariffs envisaged for plants with capacity of under 100 kW);
- elimination of the price floor;
- possible early withdrawal from the contract (involves a fee);
- possibility of aggregation between different entities.

EVOLUTION OF THE GAS SECTOR LEGISLATION

GAS TRANSPORT SERVICE TARIFFS

In August 2017, the Authority issued a resolution (575/2017/R/gas) in which it confirmed, for the years 2018-2019, what was proposed under consultation in July regarding the distribution of entry and exit fees based on a ratio of 40:60 (with respect to the previous 50:50 model).
Tirreno Power, in filing a complaint about some of its faults, including non-compliance with some primary regulations, challenged the provision before the Regional Administrative Court of Lombardy together with other electricity producers (hearing held in December 2019).
In May 2018, ARERA, by means of document (182/2018/R/gas) on the reference price methodology and the criteria for the allocation of the costs relating to the natural gas transport service, commenced negotiations for the fifth regulatory period (5PRT), in which it is necessary to adopt the provisions of Regulation (EU) no. 460/2017 (TAR Code) into national tariff law.
Following a well-structured consultation phase, ARERA sent to ACER the outcomes of the dialogue with operators and, in the first few months of 2019, published a series of resolutions which define the final regulation of the period. The 5 PRT entered into force on January 1, 2020.

GAS EMERGENCY PLAN

By means of resolution 612/2018/R/GAS, ARERA approved the elimination of the imbalance price which was applied in the event of activation of the Gas Emergency Plan and the so-called “non-market” measures (demand and supply initiatives to rebalance the market).
The authority believes that the critical situations of the gas system identified in the previous thermal year - due to adverse weather conditions recorded at the end of the winter in Europe - highlighted potential criticality profiles in relation to the application of the price applied, which could compromise, under given circumstances, the effectiveness of the “non-market” measures and the restoration of the balance of the national transport network.
In addition to eliminating the cap, in order to prevent potential prejudicial effects as regards the safety of the gas system, ARERA established that:

- by means of a subsequent provision, it will define the activation prices for each of the “non-market” measures pursuant to the Emergency Plan, which will also contribute to the definition of the imbalance price applied in the event of activation of “non-market” measures;
- pending the adoption of the aforementioned provision, the prices of each of the “non-market” measures set forth in the Emergency Plan - as well as the imbalance price referred to in the previous point - will be 82.8 €/MW;
- in the same resolution, ARERA introduced additional provisions geared towards the implementation of the Emergency Plan in relation to additional storage capacity provided, under given circumstances, by the leading storage company (gas release price).

The expected provisions have still not been issued.

ACTS DIRECTLY RELATING TO TIRRENO POWER

START OF PROCEEDINGS FOR THE EVALUATION OF POTENTIAL ABUSE IN THE WHOLESALE ELECTRICITY MARKET

As indicated in the previous financial statements, in June 2016, by means of resolution 342/2016/R/eel, the Authority had launched an investigation against a number of electricity operators, including Tirreno Power, relating to alleged abusive behaviour in the wholesale electricity market. The investigation concerns two separate cases: the first refers to the alleged adoption of consumption unit scheduling strategies and plants powered by non-programmable renewable sources not consistent with the standards established by the Authority. The second regards production units authorized to submit offers on the Dispatching Services Market that would not have offered their capacity on energy markets, encouraging Terna to establish units for balancing the system and subsequently increasing its costs.
As regards Tirreno Power, in July 2017, by means of resolution 511/2017/E/eel, the dismissal of the proceedings relating to the adoption of consumption unit scheduling was ordered. The outcome of the proceedings has still not been notified in relation to the other strand of the investigation and, at the current state of play, any negative consequences for the Company are considered unlikely.

EXPECTED REIMBURSEMENTS FOR NON-ALLOCATION OF ETS ALLOWANCES

As is well-known, Tirreno Power's Napoli Levante plant was excluded from the allocation of free emission allowances envisaged in the second period of the Emission Trading System (ETS 2008-12) due to the depletion of the reserves put at the disposal of production plants that entered into service during the period (so-called new entrants reserve). For such systems, the Legislator has made provision for a mechanism for the purchase with consideration of allowances reimbursed through a procedure established in recent years and based on the collections obtained by the GSE from the allocation of the allowances at auction in the next period (2013-20). In this context, Tirreno Power is the holder of a credit of around Euro 28 million to be paid on the basis of the resources that are made available for reimbursements by auctions for the allocation of allowances of the new period started 2013.
The 2016 Stability Law introduced regulations that, by increasing the available resources, help speed up the expected reimbursement.
In 2016, the first instalment of the credit was collected for an amount of around Euro 10.5 million (principal and interest) and, at the start of 2017, another instalment of roughly Euro 7.7 million was paid. The payment of the residual credit is expected to be subject to the renewal of the Company's anti-mafia disclosure by the Prefecture of Rome: the renewal procedure is still pending from October 2017, when the Ministry of Economic Development inserted all the information provided by Tirreno Power in the database accessible by the Prefecture.
In order to speed up the collection of the credit, the company filed an appeal to the Lazio Regional Administrative Court against the Ministry of Economic Development's inaction regarding completion of the reimbursement process. By means of a ruling published on February 19, 2020, the appeal was rejected.
The average time that the Prefecture of Rome needs to proceed with the renewal of the anti-mafia disclosure, also in consideration of the management of the queues of activities of all cases, is roughly one and a half years, therefore, the receivable is booked under "Other non-current assets".

THE DISPUTE OVER THE RECALCULATION OF THE CAPACITY PAYMENT FOR THE YEARS 2010/2011

Following a complex administrative dispute, by means of Resolution 400/2014/R/eel, the Authority ordered the recalculation the fees to cover the second component for the remuneration of the production capacity for the years 2010 and 2011. In particular, the measure levied costly reimbursements on some operators, including Tirreno Power, which was required to repay a total of around Euro 5.5 million in 2014. Given the seriousness of the situation brought about by the resolution and in consideration of the lack of legitimacy of the measure, Tirreno Power joined other operators penalised by the latter in filing an appeal against the aforementioned resolution before the Lombardy Regional Administrative Court. In 2016, a hearing was held which led to a ruling which cancelled the measure contested and established the need to renew the procedure for determining the fee.
The Authority filed an appeal against the first instance ruling: the Council Chamber met in May 2017 and, at the end of December, the Council of State upheld the requests presented by the appellant, cancelling the first instance ruling.

In June 2018, Tirreno Power, together with other operators, appealed the matter before the European Court of Human Rights (ECtHR), which still needs to issue a ruling on the matter.

THE REGULATION OF IMBALANCES FOR THE PERIOD 2012-2014

The regulation of the actual imbalances in the electricity market for the period 2012-2014 was the subject of a long dispute which ended with the second instance cancellation of a number of the Authority's resolutions. In respect of this cancellation, Terna has performed recalculations of imbalances by using the criteria defined by the Authority before the issuing of the acts found to be unlawful. This generated, for Tirreno Power, the billing of negative amounts in relation to the periods covered by the recalculation of approximately Euro 4.5 million in 2015.
Tirreno Power challenged, before the Lombardy Regional Administrative Court, the communication in which Terna acknowledged its desire to perform the recalculations.
Simultaneously, the Authority initiated proceedings for the adoption of a new regulation for the period in which the cancellation judgments determined legislative uncertainty. In that context, following a consultation process, the Regulator issued a new resolution (333/2016/R/eel), which takes account of the confidence generated in operators by the regulation in force at the time of its production planning, although subsequently cancelled. According to the resolution, Terna performed recalculations for the adjustments of the considerations in October 2016.
The aforementioned resolution was challenged at the Lombardy Regional Administrative Court by several operators, but the rulings published by the Court confirmed the resolution. Many of the first instance plaintiffs filed an appeal against the ruling: the appeals are currently pending at the Council of State. Tirreno Power objected at both the first and second instance proceedings and, in the 2016 financial statements, the company allocated the amount received as adjustment, in respect of the risk of having to repay the amount to Terna. This risk, also based on the opinion of the legal representative appointed, is currently still considered likely.

APPEAL AGAINST RESOLUTION 44/2018/R/EEL

In February 2018, ARERA published a resolution (44/2018/E/eel) containing adjustments to the remuneration of the quantities handled for the secondary reserve in special situations (revocation in the balancing market of quantities accepted on the MSD on an ex-ante basis). The resolution requires Terna to recalculate some activities on the DSM on an ex-ante basis for the activation of the Secondary Reserve: the rule was corrected with the update of the CdR (Network Code) in February 2017.
By means of the resolution mentioned, the Authority asked Terna to regulate the adjustments for the years 2011/17, which saw the repayment to Tirreno Power of Euro 969 thousand. However, the resolution cited does not consider the adjustments for cases of activation of the Secondary Reserve in real time (netting), despite this service situation also, altogether similar to the revocation, being concerned by the same calculation errors that the resolution aims to resolve. Therefore, Tirreno Power challenged the resolution through an extraordinary appeal to the President of the Republic, subsequently transposed to the Regional Administrative Court of Lombardy which, in May 2019, rejected the appeal. The company did not see fit to submit an appeal against the ruling of the Regional Administrative Court of Lombardy.

APPEAL AGAINST THE MINISTERIAL DECREE ON THE REGULATION OF THE CAPACITY MARKET AND RELATED ACTS

Last September, Tirreno Power filed an appeal for the annulment of the Decree of the Ministry of Economic Development of June 28, 2019 regarding the "Regulation of the system of remuneration of electricity production availability", and the related acts.
The appeal challenges the violation of the objectives set for the instrument by the implementing decree, the opening of the instrument to new authorised capacity, the modification of the essential rules of operation of the mechanism and the non-compliance with the consultation obligations. The first hearing before the Regional Administrative Court is set for February 26, 2020.
In November, Tirreno Power submitted an appeal to the European Court of Justice for the annulment of the EU Commission's decision in which said entity did not raise objections to the document "Modification of the mechanism to remunerate capacity in order to guarantee system adequacy". Introduction of environmental requirements" notified by the Italian State in 2019.

Production scenario

The energy input in the period amounted to 5.2 TWh, down by 0.7 TWh compared to 5.9 TWh in 2018.
The following table provides details of the energy injected, with respect to the same period last year, broken down by unit and plant:

ENERGY INJECTED (GWH)	12.31.2019	12.31.2018	CHANGES
Combined Cycles	**5,019**	**5,702**	**(683)**
• TV5	1,312	1,327	(15)
• TV6	465	490	(25)
• VL5	1,913	2,519	(605)
• NA4	1,329	1,367	(38)
Renewable Sources	**178**	**213**	**(34)**
TOTAL	5,197	5,915	(718)

(source: Company database)

In 2019, the production of CCGT was essentially in line with the previous year, with the sole exception of the VL5 plant, which recorded a drop in production of more than 600 GWh.
Despite market margins in 2019 being, on average, higher than those of 2018, they stood at close to zero in most months or, nonetheless, at rather low values, as such to make the plant's operation in baseload mode inappropriate.
Hydroelectric production also decreased compared to the previous year, down by 34 GWh due to lower rainfall.

PLANT MAINTENANCE

As regards the Vado Ligure Plant, scheduled maintenance was carried out in the first half of 2019 on the gas turbines and the associated recovery steam generator.
The main activities concerned: 10-year integrity checks on the natural gas lines, restoration of the boiler joints, the first step of the upgrade of the distributed control system (DCS).
In 2019, the Vado Ligure plant did not record any significant accidents in terms of duration or technical concern.
A planned shutdown was executed on unit TV5 of the Torrevaldaliga plant, from February 25 until April 8 included.
The main activities concerned: the replacement of the static exciter of the steam turbine; the checking and extraordinary overhaul of the valves and attemperators of the GVRs A and B, the overhaul of the low pressure steam turbine seals, the replacement of the joint between the outlet of the steam turbine and the condenser.
A planned shutdown was carried out on unit TV6 from September 13 to 20. The main activities concerned controls and inspections on the TGC, maintenance of electrical protection devices and periodic fire safety checks.
The Naples plant performed a planned shutdown from February 4 to March 1.
The main shutdown activities were: 10-year check of pressure parts, the replacement of a section of the cooling sea water pipe, the periodic overhaul of the main transformers and the first step of the three-year DCS upgrade project.
As regards the hydroelectric plants, note should be taken of the planned adjustment works in respect of the 1000-year flood of the Zolezzi dam, in the Municipality of Borzonasca in the province of Genoa, throughout the whole of 2019.

Environment and Safety Policy

INTRODUCTION

In 2019, the Company's main objective continued to be to reach high levels of environmental protection and worker safety, both internally and with respect to third party companies.
The Environmental Policy is inserted in the Environmental Statements of the sites on which EMAS registered thermoelectric plants are built and constitute one of the means by which the knowledge of corporate conduct in the environmental field is disseminated.

THE ORGANISATION

In order to effectively achieve the maximum levels of environmental protection and safety, the Company's organisational model provides special powers of attorney with which the General Manager assigns the Heads of the Production units full powers for the fulfilment of the duties related to the protection of the environment, of workplace health safety and of plant safety.

THE TOOLS

The main tools used for the implementation of the Company's environmental policy are:

1. THE ENVIRONMENTAL MANAGEMENT SYSTEMS
The Company has chosen to adopt the EMAS registration (Eco Management and Audit Scheme). The EMAS registration is the most prestigious environmental certification in Europe. In 2019, these registrations were maintained for the Torrevaldaliga and Naples sites: renewal of the EMAS registration was obtained for the former site on 8/7/2019 (prot. no. 2524), valid until 4/7/2022 and, for the latter, validation of the Environmental Declaration was obtained from the EMAS Committee in June 2019. The Vado Ligure plant, by contrast, employs an ISO 14.001 certified Environmental Management System.

Training and information
Environmental training and information are used to improve employees' skills and to increase their professionalism.
In 2019, activities continued aimed at staff training on environmental issues, taking into account the evolution of applicable regulations.
The focus on environmental training has made it possible to increase the number of staff, operating in both the main structure and the production sites, in possession of the title of Qualified Environmental Auditor.

Environmental reporting
The environment management systems of certified sites provide periodic reports on data and environmental performances that are subject to management review for the analysis of the comments and non-conformities, in order to identify and implement the necessary corrective actions.
In 2019, the second Sustainability Report was drafted and published, a document for the reporting of non-financial data, which recounts the work of the company with a view to integrating the relaunch of the business, environmental sustainability and social responsibility.

The main environmental events
In implementation of the provisions of decree no. 430 of 11/22/2018 of the MATTM for the overall review of the integrated environmental authorisation for large combustion plants, the plant managers sent, according to the required methods and within the deadline of April 30, 2019, the documentation to launch proceedings which will be concluded, by the MATTM, within 150 days of the presentation of the request.
From the moment the new AIAs - integrated environmental authorisations - are issued (the issue

times are uncertain owing to the many preliminary investigations that the MATTM must carry out) they will have the following duration: AIA Vado Ligure 12 years; AIA Naples and TorreValdaliga Sud 16 years.
On 03/22/2019 (prot. no. 1036), the Vado Ligure plant sent MATTM and ISPRA the request for the non-substantial modification regarding the redefinition of the operating perimeter of installation, in relation to the areas undergoing sale. This modification request was followed by the start of proceedings by the MATTM (prot. no. 9080 of 04/09/2019), which concluded with the transmission of the Preliminary Investigation Definitive Opinion by MATTM (memo no. 16934 of 07/01/2019), which upheld the request for redefining the perimeter of the area. The effectiveness of this act is subject to the signing of the deeds for the transfer of the areas subject to sale to Vernazza Autogrù commented on previously. On 12/20/2019, the new operating perimeter of the site was communicated to MATTM owing to completion of the sale of the Desox area.
On 4/2/2019, (prot. no. 1143), the Torrevaldaliga plant submitted an application for non-substantial modification for the installation of an electrical de-ionisation system, to replace the mixed beds system used in the demineralised water production process. By means of prot. letter 8713 of 4/4/19, the MATTM communicated the launch of the procedure ID 91/10063 and by means of prot. letter 15104 of 6/13/19, requested additions. The procedure concluded with a positive outcome, with the issuing of the Preliminary Investigation Definitive Opinion by the IPPC Commission (prot. 1585/CIPPC of 9/19/19).
On 12/17/2019, the MATTM informed all AIA plant operators of the planning of ordinary AIA controls, for the year 2020, within the competence of the Government.

2. SAFETY MANAGEMENT SYSTEMS
The Company pays special attention to safety-related problems.
Starting from September 2019, all Tirreno Power employees can use an app on their smartphone which enables them to report any near misses in real-time to the site Prevention and Protection Service Manager (i.e. incidents that, by pure chance, did not turn into accidents). Using the same app (called the Safety App), it is also possible to report any situations involving a potential hazard, also in the environmental field, as well as flag any company safety issues. This innovation makes it possible to optimise and speed up the communication method, also making the management of reports from the competent staff more habitual and easy to document.
In 2019, during the course of the scheduled maintenance of each plant, a team composed of Tirreno Power personnel from other sites carried out supervisory visits to the sites of the various firms with the objective of verifying respect for the safety conditions needed for the execution of works. The visits, lasting one day, are conducted on a weekly basis and are scheduled without advance notice; the team is composed of experts in the field of safety, but also maintenance and operation engineers. At the end of the trial, in view of the valuable results, the activity will also be carried out in 2020.
All Tirreno Power sites are certified according to the BS OHSAS 18001 standard (British Standard 18001 Occupational Health and Safety Assessment Series) which defines the requirements of the Worker Health and Safety Management System.
The new standard regarding workplace health and safety was published on March 18, 2018, the technical regulation UNI ISO 45001:2018, which will replace the previous standard OHSAS 18001:2011 by 2021.
The adjustment of the certifications of the individual sites into line with the new standard will be completed in the times provided, in particular:

- the adjustment of the Napoli Levante plant was carried out in the first quarter of 2019;
- the adjustment of the Torrevaldaliga plant and the Rome site was achieved in the fourth quarter of 2019;
- for the Liguria Hub, the new certification is expected to be achieved in the first half of 2020.

The compliance with these requirements is verified by a qualified body, which, in the event of a positive outcome, issues the relevant Certificate.

Training, information and education

In 2019, training was provided on safety in order to ensure the necessary continuity of training, as required by Legislative Decree 81/08 and the State-Regions Agreements; the training was completed in the time provided.

Risk Assessment Documents (DVR)

In 2019, the various sites updated the risk assessment document, where necessary, in compliance with the provisions of Legislative Decree 81/08 and subsequent amendments and additions.

Investments and demolitions

During 2019, the Company made investments totalling Euro 24,468 thousand, of which Euro 23,990 relating to tangible fixed assets and Euro 478 thousand to intangible fixed assets.
The other investments in intangible fixed assets are attributable to new licenses and the development of software applications.
The company defined an organic plan of investments for all productive units, in order to improve the plant performance, to be completed by 2021, before the entry into force of the Capacity Market.
With regard to tangible fixed assets, the investments mainly concerned:

- for the Napoli Levante plant (Euro 3,077 thousand), the activities carried out during the scheduled shutdown, the spare parts of the gas compressor, the activities relating to the upgrade of the DCS, the advance on the upcoming maintenance of HGPI Ansaldo set forth in the contract.
- for the Vado Ligure plant (Euro 4,444 thousand), the scheduled maintenance on the VL5 unit, the activities relating to the upgrade of the DCS, the purchase of the new auxiliary electric boiler. Preliminary activities also continued prior to the transfer of the areas; in particular, new oil and waste depots were constructed, and safety works carried out on the VL5 unit.
- for the Torrevaldaliga Sud plant (Euro 13,254 thousand), purchase of the power generation rotor, the scheduled maintenance on the TV5 unit, the activities relating to Package V, the revamping of the exciter of unit TV5, activities relating to the upgrade of the DCS;
- as regards hydroelectric plants, a total of Euro 2,267 thousand was invested, which primarily concerned the adjustment of the Zolezzi dam into line with the provisions of the Italian Dams Register, the general overhaul of the Giacopiane plant, extraordinary maintenance on the Strinabecco and Zolezzi plants and safety initiatives.

As regards demolition activities, it should be noted that, in the first half, demolition work was completed on the Vado Ligure fuel oil dump, with the complete dismantling of the pipes connecting fuel oil dumps 1 and 2 and the removal and dismantling of the fuel oil injection pump station.
It should be noted that, on May 17, 2019, area A under temporary state concession was redelivered to the Port Authority of Naples, covering an area of 23,320 square metres.

Human resources and organisation

December 31, 2019 marked the definitive end of the company's obligation, assumed on December 2, 2016 with the trade union organisations, to manage redundancies stemming from the collective dismissal procedure commenced in the same year.
In this regard, in the first half of 2019, the last dispute in progress as at December 31, 2018 was the subject of a settlement, which determined the acceptance by a former employee of the dismissal provision imposed and the use of the relevant provision to pay the agreed redundancy incentive.
During the course of the year, the three staff members included in the outplacement process set out in the aforementioned agreement, were hired by other companies in the appropriate positions and they were paid the associated incentive.
In June 2019, a company performance-related bonus was paid for the objectives assigned in 2018. Based on the economic results achieved by the company in the reference year, for the profitability quota, the final balance was 120% of the basic calculation portion, while for the productivity quota, the results achieved by the organisational units led to an average company final balance of 92% of the basic calculation amount.
In relation to the new structure of the bonus defined in 2018, which makes it possible for workers to allocate an amount, up to a maximum limit of 60% of the total bonus available, to alternative forms aside from salary payments, each employee had the possibility to choose how to spend the bonus amount which they were the beneficiary of.
The final allocations were as follows:

- 121 employees out of 225 (roughly 54%) elected for the payment of the entire bonus in cash;
- 84 employees (around 37%) took the option to receive a portion of the bonus in cash and the remainder in the form of welfare and/or supplementary pension;
- 20 employees (around 9%) allocated all the bonus to welfare and/or supplementary pension.

The decision to avail of the company welfare initiatives provided by the company or company supplementary pension and, that is, the institutions that are the recipients of special legislation governing contribution and tax concessions, reduced the tax wedge, allowing employees to maximise the value of the bonus received and, correspondingly, allowing the company to reduce its contribution.
For employees who didn't manage to use the entire amount of the Welfare Account in 2019, the residual amount was paid in the December 2019 salary.
The total cost of the bonus came to Euro 0.9 million and is essentially in line with the amount allocated in 2018.
Lastly, it should be noted that, in June 2019, in relation to the 2019 company performance-related bonus, the document was signed with the trade union organisations which determines the economic indicators for the final balance of the profitability of the bonus, based on which total expenses of Euro 1.7 million were recorded.
In December 2019, in consideration of the particularly favourable economic performance of the company registered in 2019, the management decided to reward all non-managerial staff with an individual bonus of Euro 2,000, to be paid in the January 2020 salaries, for a total cost of roughly Euro 0.6 million. In addition, the Board of Directors also approved the bonus of Euro 0.2 million for managers.

An agreement was signed in November between the company and the delegation of trade union representatives regarding the regulation of the economic agreements deriving from the application of art. 43 of the CCNL (national collective labour agreement) on the reimbursement of expenses, which expired more than four years ago, in order to simplify and unify the entitlements and update the relevant amounts.
The agreement addressed, among other things, the entitlement to the reimbursement of expenses, the assignment and values of restaurant vouchers, and other specific indemnities.

With a view to improving the work-life balance times, an agreement was signed which extended, until June 30, 2020, the smart working arrangement which was trialled between July 1, 2018 and June 30, 2019.
Only non-operational staff can take advantage of the agile work method, and saw 37 out of 92 total recipients take part.
Thanks to the renewal of the agreement, the number of days per month in which smart working can be used also increased from 2 to 3.
October saw the renewal of the CCNL (national collective labour agreement), which expired on December 31, 2018. The negotiations involved open dialogue between the parties, aimed at finding a balance between the need to review some entitlements, making them more flexible and modern, and the desire to preserve what has been in place up until now.
The most important changes included:

- The insertion of three highly topical issues in the Electricity Sector Observatory: article 177 of the Tenders Code, the Hydroelectric Concessions, the effects of digitalisation/energy transition.
- Involvement of RLSAs (Workers' Safety Representatives for the Region) to guarantee maximum safety for all workers who operate at the sites of electricity companies.
- Banca Ore: aside from the 180 hours of overtime for the half, it will be possible to allocate the hours worked in order obtain the corresponding time off to be used by April 30 of the following year.
- Possibility, for new hires, to convert length of service bonuses to payments to the sector supplementary pension.
- Right for every worker to receive 28 hours of training in the three-year period and creation of the completed training certification, through an individual training book.
- The increase in the three-year period of validity amounts to an average value of Euro 124.

The first increase in the minimum contractual amount, for an average monthly value of Euro 39.00 was paid in November 2019; by contrast, the individual amount of a one-off sum was paid in December 2019, defined in the aforementioned agreement for renewal of the CCNL, to cover the contractual holiday period January 1 - June 30, 2019, at a total cost of Euro 30,000.
During the first half of 2019, the trade union organisations were informed of the formal termination of the collective regulation on concessions on electricity sale tariffs for personnel in service as of May 1, 2019.
In relation to said company decision, in April 2019, a trade union agreement was signed with the trade union organisations to define the methods for managing the revocation of the electricity discount benefit for personnel in service who are holders of the benefit (142 employees at the date of termination).
Each beneficiary chose how to allocate the one-off sum in question, opting for one of the three options offered by the trade union agreement:

- payment of the sum in cash in June 2019;
- payment to the FOPEN - employee supplementary pension fund (in two tranches – June 2019 and March 2020);
- payment of 50% in cash and 50% to the FOPEN.

The cost of the operation comes to a total of roughly Euro 0.8 million.
The agreement cites a document already signed in 2014 between the parties, which recognises to the aforementioned employee beneficiaries, at the moment of termination of service, an additional one-off amount based on the two caps envisaged in discounted kWh (so-called electricity discount substitute indemnity). For the agreement referred to, the cost was subject to a specific allocation in previous years (see the memorandum relating to post-employment and other employee benefits).

As regards the management of the trade union agreement relating to termination of the benefit of the discount on electricity sale tariffs for personnel whose service has ended, launched in the second half of 2018, it should be noted that, as at June 30, 2019, a total of 598 individual conciliation reports were signed with former employees, recognising a one-off amount to each of them, out of a total of 698 potential beneficiaries.
In the second half of 2019, a further 18 individual conciliation reports were signed for waiving of the benefit.
Therefore, a total of 82 positions are yet to be settled (owing to the non-acceptance by the former employees, impossibility to trace the benefits or disputed legitimacy, by the employees, of the termination of the benefit) for which the amount allocated for each one as at December 31, 2018 according to the criteria of IAS 19 was reclassified to a provision for risks. This amount is estimated to be consistent with the coverage of costs for the composition of the conciliation reports still to be signed.

An analysis of the professional and digital skills present in the company was carried out in the second half of 2019, in order to verify its alignment with the market requirements and the challenges which the company may have to face in the future.

In consideration of the average age of the employees on the workforce, which stands at around 50 years old as of today, and the simultaneous lack of millennials, a turnover process was planned, to be implemented over the new few years.
For these reasons, on December 23, 2019, all personnel were informed of a determination by the General Manager which made provision for a voluntary redundancy plan, valid for the 2020-2022 three-year period, targeted at all employees who have already accrued or who will accrue the pension right before December 31, 2026 and who terminate their employment contract up to a maximum of four years early.
Two different types of incentive will be available, intended respectively for those who will meet the pension requirements by December 31, 2020 and those who will do so after this date.
Subscription to the plan is voluntary and can be exercised by November 30, 2020.
The number of recipients of the plan in question is approximately 30; an allocation totalling Euro 5 million was set aside to cover the estimated costs for the entire redundancy plan.

Training initiatives increased throughout the whole of 2019, when compared to 2018, both as regards the number of sessions and, obviously, in terms of per capita hours. The year closed with roughly 6,300 hours provided, equal to more than 27 hours of training per capita on issues linked to safety, managerial techniques and technical skills.
In 2019, 2 training and development events were held for top and middle management, with the participation of around 45 employees (Directors and Managers of Organisational Units), in order to address, according to an experience-based approach, themes linked to problem-solving, decision-making, trust and feedback.
The effectiveness of this training method and the positive effects it brings in terms of participation, a sense of belonging and motivation convinced the management to extend the “outdoor training” to all employees, providing team-building events on the formation of the Group, team work and trust, in the 3 reference areas. Three training events were held in 2019, involving approximately 70 employees. These initiatives will be implemented in the first quarter of 2020, and will involve all employees in the relevant areas.
An internal mentoring process was launched in June, targeted at the personal development of eight staff members considered high potential.

INFORMATION & COMMUNICATION TECHNOLOGY

In the application domain, and continuing on with the approach adopted in the previous year which saw the release of the Rda (purchase request) management application, the digitalisation of purchase processes was completed in 2019, through the release of additional supply request processes, contract assignment and approval reports.
The project for the migration to the cloud of the core infrastructures and applications used by the Energy Management department was also launched. The ETRM application was released into production in 2019, on the new BEE platform in the Azure cloud. The project will be completed and released in 2020.

The project for the implementation of the radio-frequency terminals through the SAP ITSMobile platform was completed for the Vado Ligure plant. The new devices will make it possible to manage movements in consumption and adjustments, view stock summaries and manage inventories.
In the infrastructural domain, the vulnerability assessment was carried out, with the objective of identifying any vulnerabilities in the IT area; the remedial actions will be implemented in 2020.
The installation of new data storage devices was completed, prior to both the modernisation of virtualisation systems and the installation of a new file server. The new virtualisation environment was released in the second half of 2019. The installation of the new file server will instead be concluded in 2020.
The project for automation of the Civitavecchia porter service was completed, which is now equipped with the same technological and access control infrastructures as the other productive sites.

PURCHASES, SERVICES AND SECURITY

The new suppliers portal was implemented which allows, in particular, the dematerialisation of contracts with the relevant digital signature.
Physical security measures were also implemented (security doors, gates, signage, video cameras) at the Renewable Sources Sector sites.

OBLIGATIONS REGARDING LEGISLATIVE DECREE 231/01

The Model updated in 2018 was implemented in 2019.
The Supervisory Board reported positively to the Board of Directors on the effectiveness of the Model for the prevention of predicate offenses.

OBLIGATIONS FOR COMPLIANCE WITH REGULATION EU 679/16 REGARDING PERSONAL DATA PROCESSING ("GDPR")

The GDPR - General Data Protection Regulation entered into force on May 25, 2018, i.e. the European privacy regulation approved on April 14, 2016, directly applicable to EU member states, which rolled out a new regulatory framework governing personal data protection. In Italy, the regulation was completed with Legislative Decree 101/2018, adjusting the Italian legislation into line with the European regulations.
In order to comply with the regulatory obligations governing personal data protection set forth in the GDPR, the company, among other things:

- appointed, pursuant to art. 37 of the GDPR, on May 25, 2018, Ivan Rotunno, from Studio Orrick, Herrington & Sutcliffe, as Data Protection Officer, who was assigned the task of ensuring that the personal data are processed correctly;
- conducted an analysis of the gaps with respect to the GDPR;
- prepared a summary document and a set of disclosures and appointments of entities authorised for data processing and of external managers;
- adopted a privacy manual that summarises the contents of the GDPR;
- prepared a data processing register.

After having fulfilled the regulatory obligations regarding personal data protection (GDPR), in 2019, the company conducted checks on the data processors, identified the DPO representatives and carried out training activities for its employees.
By means of resolution of the Board of Directors of April 18, 2019, the company renewed the DPO appointment for one year.

AUDIT COMMITTEE

The company also has an Audit Committee which supervises the Internal Audit activities, reporting the results to the Board of Directors every six months.

RISK MANAGEMENT

For a detailed analysis of risk management, please refer to the Explanatory Notes in the section "Type of risks and management of hedging activities".

Operating performance during the year

The criteria used for the construction of the reclassified statements that contain alternative performance indicators with respect to those obtained directly from the financial statements are reported below:

Gross operating profit: an operating performance indicator, calculated as "Operating profit" plus "Amortisation, depreciation and write-downs" and "Provisions".

EBITDA: an operating performance indicator, calculated as "Operating profit" plus "Amortisation, depreciation and write-downs."

Net fixed assets: calculated as the difference between the "Non-current assets" and "Non-current liabilities" with the exception of:

- "Payables for loans";
- "Provisions for risks and charges";
- "Post-employment and other employee benefits";
- "Liabilities for deferred taxes."

Net working capital: defined as the difference between "Current assets" and "Current liabilities" with the exception of:

- "Payables for loans";
- "Cash and cash equivalents";
- "Provisions for risks and charges";
- the bank current account advances and bank current account debt exposures included in "Other current financial liabilities".

Net capital employed: calculated as the algebraic sum of "Net current assets", "Net working capital" and funds.

Net financial debt: defined as the sum of "Payables for loans", bank c/a advances and debt exposures on bank current accounts included in "Other current liabilities", net of "Cash and cash equivalents" not previously considered in the definition of other balance sheet indicators.

Return on Investment (ROI): defined as the ratio between Operating profit and net average capital employed (opening and closing).

Return on Sales (ROS): defined as the ratio of Operating profit to total revenues.

Equity yield: defined as the ratio between the net profit and the share capital plus the share premium reserve.

Unit revenue from energy sales (€/MWh): calculated as the ratio of revenues from energy sales for the period and energy sales in the period.

Incidence of financial expenses on total revenues: defined as the percentage ratio between the financial expenses in the period and the total revenue for the period.

Energy balance

Electricity sold in 2019 totalled 8,240 GWh, a decrease of 6,361 GWh compared to the previous year. The decrease is attributable to the sales of electricity to Edison. These sales, made to guarantee the gas contract, amounted to 4,982 GWh in 2018 and were zero in 2019 given replaced by a bank guarantee.
The electricity sold to Edison in 2018 was acquired in full on the power exchange, therefore, the loss of these sales also had the same impact on electricity purchased, generating a substantially zero impact in terms of profit margins.

The energy balance is presented below with a reconciliation of the quantity of energy purchased and unbalanced that makes it possible to reconcile the volumes sold with the actual energy injected to the grid.

ENERGY BALANCE (GWH)	12.31.2019	12.31.2018	CHANGES
Energy injected	**5,197**	**5,915**	**(718)**
Energy purchased	**3,083**	**8,684**	**(5,600)**
Energy sold	**8,240**	**14,601**	**(6,361)**
• on free market	1,467	7,260	(5,794)
• on Power Exchange	6,773	7,340	(567)
Imbalances	**(41)**	**2**	**(43)**

The energy sold on the “open market” refers to sales conducted with bilateral contracts, while that sold on the “Power Exchange” refers to the energy sold on the Day-Ahead Market, the dispatching market and to the GSE (Energy Services Operator) for incentivised sales of renewable energy.

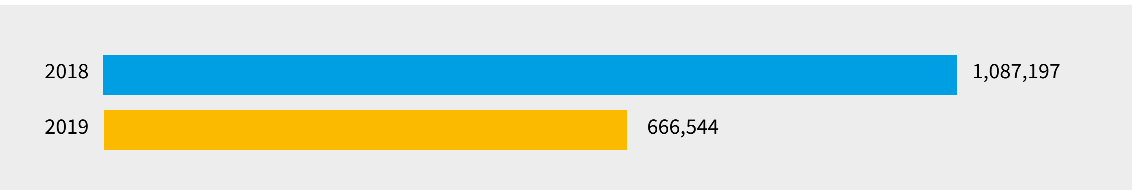
Reclassified Income Statement

The values of the reclassified income statement are reported in Euros, without decimals. For a better disclosure, comments on the individual items are expressed in thousands of Euro.

(IN EURO)	12.31.2019	12.31.2018	CHANGES
Revenues	666,543,804	1,087,197,400	(420,653,596)
Other revenues	5,430,443	3,545,071	1,885,372
Total revenues	**671,974,247**	**1,090,742,471**	**(418,768,224)**
Own work capitalised	768,777	562,467	206,310
Consumption of raw materials	(367,935,963)	(877,358,165)	509,422,202
Personnel costs	(20,928,837)	(20,341,852)	(586,984)
Service costs	(15,937,006)	(16,386,930)	449,924
Other costs	(54,761,504)	(40,874,340)	(13,887,164)
Total costs	**(458,794,533)**	**(954,398,822)**	**495,604,288**
Gross operating profit	**213,179,714**	**136,343,649**	**76,836,064**
Provisions	(3,048,944)	(3,141,494)	92,550
EBITDA	**210,130,769**	**133,202,155**	**76,928,614**
Amortisation, depreciation and write-downs	(54,489,777)	(72,357,186)	17,867,409
EBIT	**155,640,992**	**60,844,969**	**94,796,024**
Financial expenses	(16,712,270)	(19,027,944)	2,315,674
Financial income	442,203	172,815	269,388
Pre-tax profit	**139,370,925**	**41,989,839**	**97,381,086**
Taxes	27,727,987	(1,793,844)	29,521,831
NET INCOME FOR THE PERIOD	167,098,912	40,195,996	126,902,916

Revenues amounted to Euro 666,544 thousand, marking a decrease of Euro 420,654 thousand compared to the same period previous year.

Revenues (thousands of Euro)



The breakdown of the item is summarised in the table below.

(THOUSANDS OF EURO)	12.30.2019	12.31.2018	CHANGES
Free Market (Edison)	-	308,759	(308,759)
Free Market (other)	73,968	139,474	(65,506)
Power Exchange - day-ahead market	339,596	439,890	(100,294)
Power Exchange - dispatching services market	234,667	177,319	57,348
Hydro sales to GSE	9,456	12,631	(3,175)
Capacity payment	7,489	8,394	(905)
Other	1,367	731	636
TOTAL	666,544	1,087,197	(420,654)

The decrease in revenues on the open market is due primarily to the loss of the sales to Edison to guarantee the gas supply contract (Euro 308,759 thousand), as well as the lower volumes of energy sold to third parties (-813 GWh) in relation to the evolution of margins on the forward markets. The fall in revenues from sales on the day-ahead market is attributable to less sales and a lower PUN (roughly 9 €/MWh equal to a decrease of 15%), while the drop in hydroelectric revenues is due to lower production (approximately 16% less than in 2018).
Higher revenues deriving from sales on the dispatching market were recorded, thanks to the excellent performances on said market, in particular, by the Naples and Torrevaldaliga plants.
The item “other” refers mainly to the insurance reimbursement relating to flood damage in 2017 to the Millesimo plant (Euro 1,040 thousand), the sale of materials derived from demolitions (Euro 129 thousand) and the sale of guarantees of origin (Euro 145 thousand).

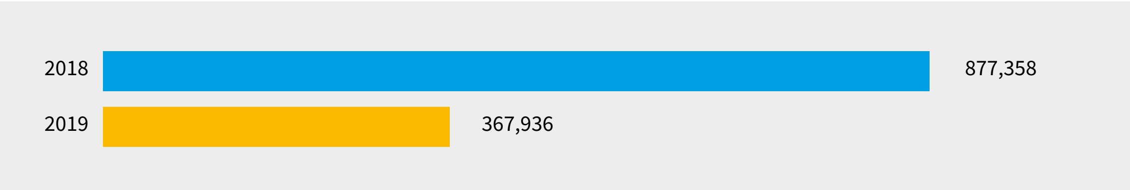
Other revenues amounted to Euro 5,430 thousand, compared to Euro 3,545 thousand in 2018 and mainly refer to: the release of the surplus energy discount provision as a result of the agreement signed on July 13, 2018 with the trade union organisations (Euro 3,379 thousand) and the close of the relative fair value (Euro 388 thousand), the reimbursement of the fee paid in 2015 on the transformation of the DTAs to tax credits (Euro 179 thousand), the collection of Tirreno Solar’s escrow deposit and subsequent write-off of the associated provision for risks (Euro 85 thousand), as well as other adjustments of items relating to previous years. Note should also be taken of the revenues deriving from contractual penalties (Euro 156 thousand), the leasing of non-operating assets (Euro 118 thousand), as well as from capital gains from the transfer of production facilities and buildings (Euro 86 thousand).

Other revenues (thousands of Euro)

In the same period of the previous year, contingent assets were composed of the adjustment of revenues, amounting to Euro 969 thousand, paid by Terna as a result of the recalculation of DSM 2011-2016 sales, the release of the excess amounts of the provision for risks and charges in relation to the settlement with the Italian Revenue Agency relating to ICI/TASI (municipal property tax/indivisible services tax) for the years 2008-2010 of the Vado Ligure plant for Euro 1,141 thousand, as well as the legal settlement with the company Betoncem for Euro 303 thousand.

The **cost of raw materials consumption** amounted to Euro 367,936 thousand, a decrease of Euro 509,422 thousand compared to 2018.

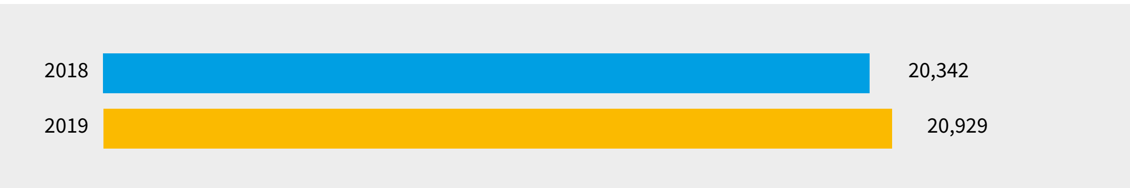
Raw materials and consumables (thousands of Euro)



The cost of fuel consumed in the period amounted to Euro 225,334 thousand, Euro 127,630 thousand lower than the cost incurred in 2018, due to both the volume effect (gas consumption fell by around 12% as a result of lower production), and the price effect (the weighted average price fell by roughly 28%).
Charges related to the purchase of energy and trading on the power exchange amounted to Euro 140,520 thousand, a decrease of Euro 381,507 thousand compared to 2018. This reduction derives primarily from lower purchases on the power exchange to cover sales to Edison to guarantee the gas supply contract (Euro 308,759 thousand). Note should also be taken of lower imbalance charges (Euro 5,968 thousand) and reduced energy purchase costs on the DSM (Euro 5,414 thousand). In respect of an increase in repurchased volumes (+182 GWh), a notable decrease was registered in repurchase prices (roughly 9 €/MWh equal to approximately 30%), essentially attributable to the decrease in the PUN.

Personnel costs amounted to Euro 20,929 thousand, an increase of Euro 587 thousand compared to the figure recorded in the previous year. The increase derives mainly from the increase in the amount of meritocracy and productivity bonuses (Euro 548 thousand).

Personnel costs (thousands of Euro)



The table below shows the average amount per job classification in 2019, compared with that of the previous year.

AVERAGE AMOUNT	12.31.2019	12.31.2018	CHANGES
Executives and Middle Managers	43.3	43.8	(0.5)
Employees	156.1	157.1	(1.0)
Workers	32.6	35.6	(3.0)
TOTAL	231.9	236.4	(4.5)

The headcount as at December 31, 2019 amounted to 231 employees, compared to 233 employees as at December 31, 2018.

Service costs in the period amounted to Euro 15,937 thousand, down by Euro 450 thousand compared to the previous year. In particular, lower considerations were paid to the GME for transactions on the markets (Euro 253 thousand) following the loss of sales to Edison and the related energy purchases on the power exchange.

Service costs (thousands of Euro)

Additional general savings have been made possible by a thorough analysis of all the contracts in place, with subsequent initiatives involving new contracts and efficiency drives.

Other costs amounted to Euro 54,762 thousand, an increase of Euro 13,887 thousand compared to the previous year.

Other costs (thousands of Euro)

In particular, higher expenses were recorded for emissions rights (Euro 14,810 thousand), due to the notable increase of the weighted average price of the valuation of CO_2, which rose from 14.21 €/ton in 2018 to 23.55 €/ton in 2019. The increase in the price is only partially offset by the positive effect of lower emissions (-274 Kton) as a result of reduced production in the period.

Gross operating profit came to Euro 213,180 thousand, compared to Euro 136,344 thousand realised in 2018.

Provisions amounted to Euro 3,049 thousand, and mainly related to:

- the recognition of the voluntary redundancy plan provision for Euro 5,000 thousand;
- asbestos-related disputes totalling Euro 3,718 thousand;
- the adjustment of the TV4 dismantling provision for Euro 2,438 thousand;
- for Euro 820 thousand, the value adjustment of part of the stocks with a high risk of not being used;
- for Euro 470 thousand, the damages caused by a flood at the Ponte Vizzà and Zolezzi hydroelectric plants and the Vado Ligure plant;
- for Euro 359 thousand, the ecotax of the Vado Ligure plant for the years 2015-2018;
- the estimate of the Long-Term Incentive Plan (Euro 744 thousand).

These allocations were partially offset by the positive effect of the release, amounting to Euro 2,977 thousand, of the provision for the dismantling of the Vado Ligure coal units in relation to the new time-scales for use of the provision, with respect to the previous assumption which made provision for its short-term use, as well as the release of the remediation provision (Euro 8,400 thousand).

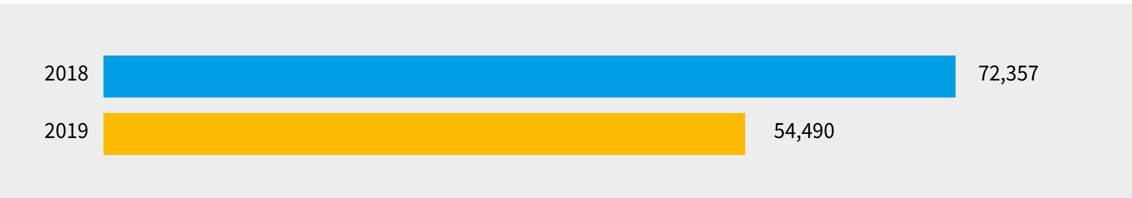
Provisions (thousands of Euro)

In the same period of 2018, provisions (Euro 3,141 thousand) had mainly related to the adjustment of demolition projects for Napoli Vigliena, for Euro 1,344 thousand, to the adjustment of provisions for the demolition of chimney stacks (Euro 875 thousand) and tanks (Euro 150 thousand) of the Vado Ligure plant.

EBITDA stood at Euro 210,131 thousand, marking an increase of Euro 76,929 thousand compared to the previous year. The substantial improvement is due mainly to the higher market margins, especially in the Dispatching Services Market, a general reduction in all operating costs and lower provisions in the year compared to the previous year.

Amortisation, depreciation and write-downs (Euro 54,490 thousand) decreased by Euro 17,867 thousand compared to 2018. Net of the write-downs of tangible fixed assets carried out in 2018 (Euro 16,204 thousand), mainly regarding part of the common works of the Vado Ligure plant, amortisation and depreciation in the year were Euro 1,813 thousand lower than those in 2018.

Amortisation, depreciation and write-downs (thousands of Euro)



The **Operating Profit** therefore amounted to Euro 155,641 thousand, compared to an Operating profit of Euro 60,845 thousand in the previous year.

In 2019, **financial expenses** of Euro 16,712 thousand were recorded, a decrease of Euro 2,316 thousand compared to the previous year, mainly due to the accelerated repayment of the line Term Loan Tranche A, (Euro -1,616 thousand) and due to the decrease in the cost linked to less exposure in guarantees issued (Euro -763 thousand).
Financial income amounted to Euro 442 thousand, compared to Euro 173 thousand in 2018, and refers primarily to the interest accrued on VAT credits for which a refund was requested.

Net financial expenses (thousands of Euro)

Taxes as at December 31, 2019, were a positive Euro 27,728 thousand and refer essentially:

1. for Euro 2,500 thousand to the estimate of current IRES and, for Euro 6,300 thousand, to the estimate of current IRAP (regional business tax), calculated on taxable income;
2. for Euro 34,822 thousand, to the positive effect of the deferred tax assets originated during the current year and in previous years estimated to be recoverable in the period up until 2023, the year in which the current regulated Capacity Market system will expire.
3. for Euro 1,687 thousand, to the positive effect relating to the use of the deferred tax liabilities generated on previous excess and early tax amortisation.

Net profit amounted to Euro 167,099 thousand (Euro 40,196 thousand in the previous year).

Analysis of the capital structure

RECLASSIFIED BALANCE SHEET

The values of the reclassified income statement are reported in Euros, without decimals. For a better disclosure, comments on the individual items are expressed in Euro.

(IN EURO)	12.31.2019		12.31.2018		CHANGES
Net fixed assets					
Tangible and intangible assets	695,398,918		700,909,639		(5,510,721)
• of which CO2 rights	52,694,440		35,005,693		17,688,747
Other net non-current assets/(liabilities)	81,122,791		47,906,325		33,216,466
Total net fixed assets	**776,521,709**		**748,815,963**		**27,705,746**
Net working capital					
Inventories	12,834,826		14,413,398		(1,578,572)
Trade receivables	72,582,584		92,771,007		(20,188,423)
Tax (payables)/receivables	(6,120,291)		(2,680,725)		(3,439,566)
Trade payables	(27,172,927)		(74,398,495)		47,225,568
Other net current assets/(liabilities)	(8,016,073)		15,297,645		(23,313,718)
Total net working capital	**44,108,118**		**45,402,830**		**(1,294,711)**
Non-current assets held for sale	**864,755**		**898,000**		**(33,245)**
Gross capital employed	**821,494,582**		**795,116,793**		**26,377,789**
Other provisions					
Provisions for risks and charges	(83,583,532)		(76,208,581)		(7,374,951)
Post-employment and other employee benefits	(6,127,944)		(12,934,493)		6,806,549
Deferred tax liabilities	(33,838,665)		(35,409,317)		1,570,652
Total other provisions	**(123,550,141)**		**(124,552,392)**		**1,002,251**
Net capital employed	**697,944,441**	**100%**	**670,564,401**	**100%**	**27,380,040**
Shareholders' equity	**393,426,335**	**56%**	**226,286,106**	**34%**	**167,140,229**
Net financial debt	**304,518,106**	**44%**	**444,278,295**	**66%**	**(139,760,189)**

Tangible and intangible assets show a decrease of Euro 5,511 thousand. The main changes concerned:

- amortisation/depreciation in the period amounting to Euro 54,340 thousand,
- investments in the period of Euro 24,468 thousand:
- the adjustment of the provisions for the dismantling of the CCGT plants as a result of the change in the inflation rate and the discount rate (increase of Euro 4,823 thousand);
- the application of IFRS 16 relating to rental fees and leases (increase of Euro 2,537 thousand);
- the higher value of emission rights acquired (Euro 17,689 thousand) and deriving from the notable increase in the weighted average price of the year compared to those of the previous year.

For details of investments made in 2019, please refer to the appropriate section "Investments and Demolitions".

Other net non-current assets/(liabilities) recorded an increase of Euro 33,216 thousand, mainly due to the recognition of the deferred tax assets (Euro 34,822 thousand).
As at December 31, 2019, the company - in light of the results obtained by virtue of which the losses posted in previous years were used as an offset for an amount of Euro 106,542 thousand, as well the forecasts of future taxable income suited to absorb the active temporary differences in tax - saw fit to recognise deferred tax assets which are estimated can be recovered in the period up until 2023, the year in which the current regulated Capacity Market system will expire.

Inventories amounted to Euro 12,835 thousand, marking a decrease of Euro 1,579 thousand compared to the previous year. This variation is attributable to the decrease in inventories of materials resulting from a careful historical analysis of movements in warehouses, rendered necessary on the basis of the changed operation of the plants and maintenance programs, which involved, on the one hand, the capitalisation under fixed assets of spare parts considered strategic (Euro 762 thousand) and, on the other, the write-down of part of the stocks with a high risk of not being used (Euro 820 thousand).
For more details, please refer to the comments on inventories in note no. 7;

Trade receivables were Euro 20,188 thousand lower than the previous year; in particular, the following were recorded:

- lower receivables in relation to bilateral sales (Euro 26,638 thousand) as a result of reduced bilateral sales in December 2019 compared to December 2018 (sales to Edison to guarantee the gas contract);
- lower receivables due from the GME (Euro 9,228 thousand) as a result of less sales on the day-ahead market in the last two weeks of the year. The whole month of December 2019 was characterised by extremely low market margins and sales primarily concerned the dispatching services market;
- higher receivables due from Terna (Euro 15,940 thousand) for higher revenues achieved in the dispatching services market in November and December 2019, compared to revenues recorded in November and December 2018.

Tax payables came to Euro 6,120 thousand, relating to IRES and IRAP taxes determined by using the rates applicable to taxable income for the year, net of IRAP advances paid.

The balance of **Trade payables** fell by Euro 47,226 thousand compared to December 31, 2018. This variation is primarily attributable to:

- the decrease in payables for gas purchase (Euro 28,903 thousand), mainly as a result of the lower cost of gas in December 2019, compared to the same period in the previous year, due to both less production and lower purchase prices;
- the drop in payables due to the GME for the purchase of energy (Euro 13,497 thousand), related to lower bilateral sales;
- the decrease in payables due to Terna for the purchase of energy (Euro 6,611 thousand) as a result of lower costs for purchases on the dispatching services market in November and December 2019, compared to revenues recorded in November and December 2018.

Other net current assets/(liabilities) registered a decrease of Euro 23,314 thousand compared to December 31, 2018. This variation is a result of the combined effects of:

- the decrease in current assets of Euro 6,212 thousand compared to the previous year, due to the lower VAT credit;

- the increase of Euro 16,957 thousand in current liabilities compared to the previous year, attributable mainly to the increase of Euro 14,810 thousand in payables for the delivery of CO_2 quotas for fulfilment of the 2019 emissions obligation.

Non-current assets held for sale, standing at Euro 865 thousand, essentially refer to the value attributed to the areas of land (around 29 hectares) of the Vado Ligure site subject to sale to the company Vernazza Autogru Srl, a transaction then finalised by means of the sale deed dated March 6, 2020, as indicated previously in the section "Operating structure".

The **Provision for risks and charges** increased by Euro 7,375 thousand as a result of the movements better described in note no. 16.

The **Net capital employed** therefore amounted to Euro 697,944 thousand (Euro 670,564 thousand as at December 31, 2018).
Shareholders' equity stood at Euro 393,426 thousand, and essentially changed when compared to December 31, 2018, due to the net profit in the period, amounting to Euro 167,099 thousand, as well as the net increase of Euro 41 thousand in IAS 19 and IFRS 9 reserves.
For more details, please refer to note no. 14.

Net financial debt amounted to Euro 304,518 thousand, down by Euro 139,760 thousand compared to 2018. For more details, please refer to the explanatory notes.

Research and Development Activities

The Company did not carry out research and development in 2019 nor are there, as at December 31, 2019, deferred costs related to this type of activity.

Own shares and shares of the parent

As at the date of the financial statements, the Company does not own treasury shares or shares of parent companies, either direct or indirect.

Relationships with subsidiaries, affiliates, parent companies and companies controlled by the latter

No significant transactions were carried out in 2019 with related parties. For more details, please refer to the notes to the financial statements.

Financial Risks, Market Risks and Other Risks

Please refer to the notes to the financial statements.

Business outlook

EVOLUTION OF THE BUSINESS PLAN

As is well-known, a Debt Restructuring Agreement was signed in 2015 with the main creditors (the Lenders) ex art. 182-bis of the Bankruptcy Law, aimed at structurally resolving the existing financial and equity imbalances. The Debt Restructuring Agreement included a refinancing plan - "Restated Facility Agreement" - negotiated on the basis of a Business Plan (hereinafter the "Plan") which, among the other assumptions, made provision for the introduction of the Capacity Market from 2018 and the recovery of electricity demand which will enable a gradual return to higher profit margins.
The Capacity Market mechanism was formally launched in 2019, in which the economic and technical parameters were established for the delivery years 2022 and 2023. Tirreno Power won all the capacity offered, equal to 1,875 MW.
In light of the introduction of the Capacity Market for the years 2022 and 2023 and the new market scenario, the Board of Directors approved the updated Business Plan. In updating the Plan, the market performance in the years 2020 and 2021, not covered by the Capacity Market mechanism, is not expected to be characterised by substantial technological/industrial changes. Consequently, the market scenarios lead us to believe that, over the new two years, the results which can be obtained by the Dispatching Services Market may offset the margins not achieved through the Capacity Market, similar to what happened in the first few years of implementation of the "Plan". In the post Capacity Market years, the market scenarios lead us to believe that the results will continue to allow the fulfilment of the obligations set forth in the debt restructuring agreement, pending a new regulatory mechanism coming into force in 2024.
On the whole, considering that:

- the economic results achieved in previous years, and in 2018 and 2019 in particular, confirmed the better performances than those forecast in the Business and Financial Plan and subsequent updates;
- the realisation, up until the present day, of the actions set out in the aforementioned "Plan" in terms of increasing the efficiency of resources, led to a reduction in structure costs;
- the verification of the capacity to generate cash allowed a faster repayment of the loan as such to extinguish the entire Tranche A three years earlier than the natural expiry of the instalments;

the reasonableness of the assumptions used by the directors to draft the "Plan" and its updating was confirmed, instilling confidence in them regarding the company's ability to be able to reach the results expected in the "Plan" also in future years, despite being fully aware that the results envisaged in the aforementioned Plan may only materialise if the assumptions contained therein are satisfied. These assumptions are primarily related to the market trends and regulatory developments which are subject, owing to their nature, to uncertainties in terms of the methods and timing of their realisation.
Based on these assumptions, the directors reasonably expect the company to continue to operate in the foreseeable future as an operating entity, therefore, drafting these annual financial statements on the basis of the going concern assumption.

BUSINESS OUTLOOK

After a 2019 characterised, according to the estimates drawn up by ISTAT, by an increase of approximately 0.2% in Italian GDP (a marked slowdown compared to growth of 0.8% recorded in 2018), in its last monthly bulletin, the Bank of Italy predicted GDP growth of around 0.5% in 2020, 0.9% in 2021 and 1.1% in 2022.
According to the early provisional data drawn up by Terna, total electricity requested in Italy amounted to 319.6 billion kWh in 2019, (-0.6% compared to 2018). In 2019, renewable energy sources met 35.3% of Italian electricity demand (an increase compared to 34.7% in 2018).
At regional level, the trend-based change in December 2019 was negative everywhere: -4.3% in the North, -2.1% in the Centre and -0.7% in the South.
Gas consumption will continue to play a central role in the decarbonisation process, in line with the objectives set (2020 Climate-Energy Package) by providing, in particular, a significant contribution to the thermoelectric sector, in view of the gradual exit from coal production and increase in intermittent renewable sources. The use of the latter, insufficiently programmable, will require greater support from natural gas, a source that guarantees production continuity and flexibility.
In 2019, despite operating in an increasingly more competitive market context and marked by a drop in energy demand, the company bolstered its economic and financial results, with growth of almost 60% in EBITDA compared to 2018, generating cash flows which enabled it to accelerate the repayment of the financial debt set out in the agreement with banks. In January 2020, Tranche A of the debt was repaid in full, which amounted to Euro 300 million in 2015, and the associated capitalised interest, three years earlier than the natural expiry envisaged at the end of 2022.
In 2019, the Company obtained the issuing of new commercial guarantees and the opening of credit lines for commodities, which made it possible to expand the group of counterparties for the finalisation of bilateral hedging contracts.
Management actions will continue to target protecting profitability through a constant focus on seizing all the opportunities in the electricity market, increasing process efficiency, and personnel training and motivation. In particular, in 2020, the company will dedicate efforts to digitalising some company processes, with a special focus on the planning of company requirements, consistent with the elements presented in the Business Plan and, as early as 2019 has committed to achieving an increasingly higher level of plant performance, through a plan of investments in plants targeted at guaranteeing the necessary flexibility to best respond to the volatility of demand on the electricity market and guarantee the optimum performances of the productive units.
Special attention will be focused on maintaining the levels of company costs recorded and monitoring them.

Significant events after the close of the period

In consideration of the evolution of the available cash due to the excellent results reported, as well as the collection of the VAT credit for 2018, amounting to Euro 32,000 thousand plus interest, at the end of January 2020, the company, together with the early payment of the debt linked to surplus cash as at 12.31.2019 (Cash Sweep - contractual obligation), made an additional early “voluntary” payment, in order fully repay the residual part of the debt relating to Tranche A and the associated capitalised interest a full three years earlier than the natural expiry envisaged for the end of 2022.
More specifically, the repayment of the last part of Tranche A of the debt amounted to Euro 46,377 thousand, of which Euro 26,407 thousand as Cash Sweep and Euro 19,970 thousand as “Voluntary Prepayment”.

On March 6, 2020, the final deed of sale was signed for the areas subject to sale to the company Vernazza Autogru. The transaction, described in detail in the paragraph “Operating structure”, involved the collection of Euro 2,100 thousand net of advances already received in 2019.

Proposals of the Board Of Directors

Dear Shareholders,

We invite you to approve the financial statements at December 31, 2019, both as a whole and the individual items.

Taking account of the above in this Management Report, as well as the provisions of Article 2430 of the Italian Civil Code and the provisions of the company Articles of Association, it is proposed to allocate the net profit of Euro 167,098,912 as follows:

1. Euro 8,354,946, equal to one twentieth of net profits, to the legal reserve;
2. the remainder, of Euro 158,743,966 as retained earnings.

Rome, March 4, 2020

For the Board of Directors
(Chairman)

Financial Statements Schedules

Balance Sheet

(EURO)	NOTE	DEC-31-19	DEC-31-18
Assets			
Property, plant and equipment	1	641,878,963	665,266,737
Intangible assets	2	53,519,955	35,642,901
Non-current financial assets	3	10,474,461	6,788,225
Deferred tax assets	4	35,547,256	621,042
Other non-current assets	5	37,448,729	41,710,882
Derivative financial instruments	6	-	410,534
Total non-current assets		**778,869,364**	**750,440,322**
Inventories	7	12,834,826	14,413,398
Trade receivables	8	72,582,584	92,771,007
Other current assets	9	46,970,664	53,609,003
Derivative financial instruments	10	611,826	125,104
Other current financial assets	11	72,808	133,251
Cash and cash equivalents	12	26,424,275	24,925,567
Total current assets		**159,496,982**	**185,977,329**
Non-current assets held for sale	**13**	**864,755**	**898,000**
TOTAL ASSETS		**939,231,101**	**937,315,651**
Liabilities			
Share capital		60,516,142	60,516,142
Other reserves		126,793,526	124,742,410
Accrued gains (losses)		39,017,754	831,557
Profit (losses) for the period		167,098,912	40,195,996
Shareholders' equity	**14**	**393,426,335**	**226,286,105**
Payables for loans	15	284,565,425	416,237,721
Provisions for risks and charges	16	79,852,666	65,679,454
Post-employment and other employee benefits	17	6,127,944	12,934,493
Deferred tax liabilities	18	33,838,665	35,409,317
Other non-current liabilities	19	822,096	1,624,359
Other non-current financial liabilities	20	1,525,559	-
Total non-current liabilities		**406,732,355**	**531,885,344**
Payables for loans	15	46,376,957	52,966,140
Provisions for risks and charges	16	3,730,866	10,529,128
Trade payables	21	27,172,927	74,398,495
Payables for income tax	22	6,120,291	2,680,725
Other current liabilities	23	54,459,740	38,464,468
Derivative financial instruments	24	624,351	99,021
Other short-term financial liabilities	20	587,279	6,225
Total current liabilities		**139,072,411**	**179,144,202**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**939,231,101**	**937,315,651**

Income Statement

(EURO)	NOTE	DEC-31-19	DEC-31-18
Revenues	25	666,543,804	1,087,197,400
Other revenues	26	5,430,443	3,545,071
Total revenues		**671,974,247**	**1,090,742,471**
Own work capitalised	27	768,777	562,467
Consumption of raw materials	28	(367,935,963)	(877,358,165)
Personnel costs	29	(20,928,837)	(20,341,852)
Service costs	30	(15,937,006)	(16,386,930)
Other operating costs	31	(57,810,449)	(44,015,835)
Amortisation, depreciation and write-downs	32	(54,489,777)	(72,357,186)
EBIT		**155,640,992**	**60,844,970**
Financial expenses	33	(16,712,270)	(19,027,944)
Financial income	34	442,203	172,815
Pre-tax profit		**139,370,925**	**41,989,840**
Taxes	35	27,727,987	(1,793,844)
Net income		**167,098,912**	**40,195,996**
Earnings per share - basic and diluted	**36**	**2.76**	**0.66**

STATEMENT OF COMPREHENSIVE INCOME / (LOSS)

(EURO)	NOTE	2019	2018
Net income for the period		**167,098,912**	**40,195,996**
Other components of comprehensive income:			
Change in fair value of financial instruments on POWER	24	(399,251)	(75,256)
Change in fair value of financial instruments on GAS	10	369,909	95,079
Change in fair value IAS 19 - Post-employment and other benefits	17	(466,361)	513,444
Change in fair value of Interest Rate Cap	6	(3,524)	(317,181)
Change in fair value - IFRS 9 - Time Value	6	540,543	(540,543)
Total other components of comprehensive income		**41,316**	**(324,457)**
TOTAL COMPREHENSIVE INCOME		167,140,228	39,871,539

STATEMENT OF CASH FLOWS

(EURO)	NOTE	DEC-31-19	DEC-31-18
OPERATING ACTIVITIES			
Net income for the period	14	167,098,912	40,195,996
Amortisation, depreciation and write-downs	32	54,489,777	72,357,186
Net provisions for deferred taxes and other provisions		(1,002,251)	(9,386,505)
(Purchase) repayment of GC and CO2 quotas		(17,688,747)	(15,662,973)
Increase (decrease) in IAS 39, IAS 19, Interest Rate CAP reserves		41,316	507,100
Other non-monetary changes		(6,789,080)	1,643,196
Change in other non-current assets and liabilities		(33,216,466)	(13,112,729)
Change in other current assets and liabilities		1,740,711	(9,995,572)
Cash flow from operating activities		**164,674,173**	**66,545,699**
of which:			
• Interest income collected		-	-
• Interest expenses paid		(3,292,207)	(994,885)
• Income taxes paid		(4,644,913)	-
INVESTMENT ACTIVITIES			
Investments in tangible assets		(23,990,291)	(13,217,449)
Investments in intangible assets		(477,693)	(280,480)
Cash flow from investment activities		**(24,467,984)**	**(13,497,930)**
FINANCING ACTIVITIES			
Increase in share capital		-	-
Increase (decrease) in payables for non-current loans		(131,672,297)	(54,282,153)
Increase (decrease) in payables for current loans		(6,589,184)	14,484,409
Equity instruments		-	-
Changes in other short-term financial liabilities		(446,000)	-
Cash flow from financing activities		**(138,707,481)**	**(39,797,744)**
Increase (decrease) in cash and cash equivalents		**1,498,708**	**13,250,026**
Opening cash and cash equivalents		**24,925,567**	**11,675,541**
Closing cash and cash equivalents		**26,424,275**	**24,925,567**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(EURO)	NOTE	SHARE CAPITAL (A)	OTHER RESERVES (B)	ACCUMULATED GAINS (LOSSES) (C)	PROFIT (LOSS) FOR THE PERIOD (D)	TOTAL (A+B+C+D) =E
Balance as at January 1, 2018						
Allocation of profit for 2017			(13,463,142)		13,463,142	-
Adjustment of opening balances in application of IFRS 9				831,557		831,557
Comprehensive profit/ loss December 2018			(324,457)		40,195,996	39,871,539
of which:						
Income/losses booked directly to shareholders' equity	*14*		*(324,457)*			*(324,457)*
Profit/losses December 2018					*40,195,996*	*40,195,996*
Balance as at January 1, 2019		**60,516,142**	**124,742,410**	**831,557**	**40,195,996**	**226,286,105**
Allocation of profit for 2018			2,009,800	38,186,196	(40,195,996)	-
Comprehensive profit/ loss December 2019			41,316		167,098,912	167,140,228
of which:						-
Income/losses booked directly to shareholders' equity	*14*		*41,316*			*41,316*
Profit/losses December 2019					*167,098,912*	*167,098,912*
BALANCE AS AT DECEMBER 31, 2019		**60,516,142**	**126,793,526**	**39,017,754**	**167,098,912**	**393,426,335**

Explanatory Notes

Declaration of conformity

These financial statements are prepared in accordance with IFRS international accounting standards issued by the 'International Accounting Standards Board (IASB) and provide complete information on the basis of IAS 1.
IFRS means all the “International Financial Reporting Standards”, all International Accounting Standards (“IAS”), all of the interpretations of the International Financial Reporting Standards Committee (“IFRIC”), all the interpretations of the Standing Interpretations Committee (“SIC”), adopted today by the European Union and contained in the EU Regulations published on G.U.C.E. (Official Journal of the European Union) up to today’s date, in which the Board of Directors of Tirreno Power S.p.A. authorised the publication of these financial statements. Lastly, still on the subject of interpretation, account was also taken of the documents on IAS / IFRS in Italy prepared by the Italian Accounting Board (OIC).

STRUCTURE AND CONTENT OF FINANCIAL STATEMENTS

These financial statements consist of the Balance Sheet, Income Statement, Statement of Comprehensive Income/Loss, Statement of Cash Flows, Statement of Changes in Shareholders’ Equity, as well as the Explanatory Notes and are drafted on the basis of the going concern assumption, based on the indications of the paragraph “Business outlook”.
As for the financial statements that the Company has chosen to adopt it should be noted:

- in the “Balance sheet” assets and liabilities are sorted by due date, separating current and non-current items by expiry, respectively, within or after 12 months;
- the “Income statement” is presented in a scalar form by nature;
- the “Cash flow statement” is prepared using the indirect method, as allowed by IAS 7;
- the “Statement of comprehensive income / loss” is prepared separately in accordance with IAS 1 Revised.
- the “Statement of changes in Shareholders’ Equity” is prepared in accordance with IAS 1 Revised.

The functional currency used for the presentation of financial statements is the euro and all amounts are expressed in thousands of Euros unless indicated otherwise. For disclosure purposes, the values are reported without decimals.
This document is subject to auditing by the auditing firm *EY S.p.A.*, a company which was also entrusted with the legal auditing of accounts.

Accounting policies and valuation criteria

The accounting policies and valuation criteria adopted are summarised below. The valuation criteria are adopted on a going concern basis and comply with the principles of competence, relevance and materiality of accounting information and the prevalence of economic substance over legal form.
The general principle used in preparing these financial statements is the cost method with the exception of any derivatives for which IFRS 9 requires the fair value measurement.

CURRENT/NON-CURRENT CLASSIFICATION

Assets and liabilities are classified in these financial statements according to the current/non-current criterion.
An asset is current when:

- it is expected to be realised, or held for sale or consumption, during the normal course of the operating cycle;
- it is held primarily for trading purposes;
- it is expected to be realised within twelve months of the date of year-end; or
- it is composed of cash or cash equivalents unless it is prohibited to exchange or use it to extinguish a liability for at least twelve months of the date of year-end.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be extinguished during its normal operating cycle;
- it is held primarily for trading purposes;
- it must be extinguished within twelve months of the date of year-end; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months of the date of year-end.

All other liabilities are classified as non-current.

USE OF ESTIMATES

The preparation of financial statements and related notes requires the application of accounting principles and methods that sometimes are based on complex judgments and estimates, linked to historical experience, and assumptions that are from time to time considered reasonable and realistic based on the associated circumstances. The application of these estimates and assumptions affects the information provided and the amounts reported in the balance sheet, income statement and cash flow statement, and consequently in the statement of changes in equity, due to the uncertainty that characterises the assumptions and conditions on which the estimates are based. A change in the conditions underlying the assumptions used could have a potentially significant impact on the financial statements, on recoverability and on depreciation and amortisation of non-current assets, risk provisions, some regulatory credits, deferred tax assets, as well as in relation to the fair value of financial instruments. In particular, the recoverability assessments of major asset items, such as tangible and intangible assets and deferred tax assets, are based on significant estimates related to the determination of future cash flows available and taxable income. Estimates and assumptions are reviewed periodically and the effects of each change are simultaneously recognised in the income statement.

TRANSLATION OF FOREIGN CURRENCY ITEMS

The functional and presentation currency is the euro.
Foreign currency transactions are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities in currencies other than the functional currency are subsequently adjusted at the exchange rate prevailing at the balance sheet date. Exchange differences arising from the conversion operations are reflected in the income statement and recorded under financial income and expenses. Non-monetary assets and liabilities denominated in foreign currencies and valued at cost are translated at the exchange rate prevailing at the date of initial transaction.

TANGIBLE ASSETS

Property, plant and equipment are stated at acquisition or production cost, less accumulated depreciation and any accumulated impairment losses. The cost includes expenditure directly incurred to prepare the assets for use, as well as any charges for dismantling and removal (as provided by IAS 37), recorded at the present value of the future expense which is estimated will be incurred. The cost also includes any interest paid on the purchase or construction of property, plant and equipment incurred to bring these into operation.
They also include the costs relating to spare parts considered strategic for guaranteeing plant productive activities.
Depreciation commences when the asset is available for use and is recognised systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.
The useful life of property, plant and equipment and their residual value are reviewed and adjusted if appropriate, at least at the end of each year. The presumed realisable value which is deemed recoverable at the end of its useful life, if determined, is not depreciated.
Where the asset subject to depreciation is composed of separately identifiable elements whose useful life differs significantly from that of the other parts that make up the asset, depreciation is calculated separately for each of these parts, in application of the component approach.
Ordinary maintenance costs are fully expensed in the year they are incurred.
The costs incurred for the maintenance performed at regular intervals (so-called Major Inspection) are recorded as assets in the balance sheet and are amortised on the basis of the intervention cycle, as planned by management.
The depreciation of freely transferable assets outside the scope of IFRIC 12 is calculated on a straight-line basis over the shorter of the remaining life of the concession and the estimated useful life of the same.
Land, whether free of constructions or annexed to civil and industrial buildings is not depreciated as it has an unlimited useful life.

The estimated useful lives of property, plant and equipment is as follows:

Buildings	25/40 years
Equipment; steam generator; mech. mach.; hydraulic works	20 years
Combined cycle plants	30 years
Maintenance	from 2 to 8 years
Electronic calculators; office machines; IT equipment	5 years
Transport lines	35 years
Long distance transmission systems and industrial equipment	10 years

The book value of an element of property, plant and equipment and each significant component initially recognised is eliminated at the moment of disposal (i.e. at the date on which the purchaser acquires control of it) or when no future economic benefit is expected from its use or disposal. The profit/loss that emerges at the moment of the derecognition of the asset (calculated as the difference between the net book value of the asset and the consideration received) is booked to the income statement when the element is derecognised.
The residual values, useful lives and methods of depreciation of property, plant and equipment are revised at the close of the year and, where appropriate, corrected prospectively.
In the event of signs of deterioration, tangible fixed assets are subject to a recoverability test (so-called "impairment test") which is illustrated in the following paragraph "Impairment of Assets". At the same time, the restoration of an asset previously written down as a contra-item in the income statement is also booked to the income statement.

INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary, identifiable and without physical substance, controllable and capable of generating future economic benefits. They are carried at cost of purchase and/or production cost, including directly attributable costs of preparing the asset for use, net of accumulated amortisation, in cases where there is an amortisation process, and any impairment. Amortisation commences when the asset is available for use and is recognised systematically over the remaining useful life of the same, i.e. on the basis of the estimated useful life.
Research costs are expensed in the year they accrue. Development costs are capitalised if the cost can be measured reliably and it is shown that the asset is able to generate future economic benefits.
With regard to so-called emission rights as well as economic situations similar to them, following the IASB's non-approval of IFRIC 3 (Emission Rights) and then its subsequent withdrawal, there is currently no specific international accounting standard on the issue. Pending a new principle, Tirreno Power, given that it procures the above environmental bonds to meet its own requirements in the performance of its industrial activities (so-called own use), has decided to adopt, on the basis of market benchmarks, the gross method, which involves booking the emission rights as intangible assets at their fair value, which is equal to the historical cost, and registration of emission rights to be delivered as a liability. This item is not amortised, but tested for impairment. Costs incurred for purchase on the market (or, nonetheless, with consideration) of the missing CO_2 quotas to fulfil the obligation of the reporting period are recognised in the income statement on an accrual basis, under other operating expenses, given that expenses represent the fulfilment of a legal obligation.

IMPAIRMENT OF ASSETS

At each balance sheet date, property, plant and equipment and intangible assets with indefinite lives are tested in order to establish whether there are indicators of impairment. When the presence of these indicators is identified, the recoverable amount of the assets is estimated and any impairment loss recognised in the income statement. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the latter is the present value of estimated future cash flows of the asset. In determining the value in use, expected future cash flows are discounted with a discount rate that reflects the assessment of the cost of money for the company, in relation to the investment period and the specific risks of the asset. An impairment loss is recognised in the income statement when the asset's carrying amount exceeds its recoverable amount.
In the case of goodwill and other intangible assets with indefinite useful life or assets not available for use, this test is performed at least annually.
For tangible and intangible fixed assets (but not for goodwill), should the reasons for a write-down effected previously no longer exist, the carrying value is reinstated by an entry in the income statement, in accordance with the limits of the net book value that the asset would have had if it had not been written down and depreciation had been charged.

INVENTORIES

Raw materials, consumables and supplies are valued at purchase cost determined using the weighted average method and are not written down below cost given held to be used in the production process.
The purchase cost is determined for the reference period, in respect of each inventory item. The weighted average cost includes the relevant accessory charges relating to purchases in the period.
The value of obsolete and slow-moving inventory is written down in relation to the risk of use or sale, through the allocation of risk in a specific provision for the write-down of inventories.

FINANCIAL INSTRUMENTS

Financial instruments include financial assets and liabilities whose classification is determined at the time of their initial recognition, depending on the purpose for which they were purchased. Purchases and sales of financial instruments are recognised on the trade date.
The financial instruments include not only investments available for sale, but other non-current financial assets, receivables and non-current loans, trade receivables, other receivables originated by the enterprise as well as other current financial assets such as cash and equivalents or bank deposits and financial receivables due within three months. Fall also under financial instruments, financial liabilities, trade payables, other payables and other financial liabilities and derivative instruments.
All assets and liabilities for which the fair value measured or stated in the financial statements are categorised on the basis of the fair value hierarchy, as described below:

- Level 1 - prices listed (not adjusted) in active markets for identical assets or liabilities which the company can access at the measurement date;
- Level 2 - inputs other than prices listed in Level 1, observable directly or indirectly for the asset or for the liability;
- Level 3 - valuation techniques for which the input data are not observable for the asset or the liability.

The fair value measurement is classified entirely to the same level of the fair value hierarchy in which the input of the lowest level of the hierarchy used for the measurement is classified.
It should be noted that no changes were verified in the levels of the fair value hierarchy used for the purposes of measuring the financial instruments with respect to the last financial statements.
For assets and liabilities booked to the financial statements at fair value on a recurring basis, the company determines whether transfers between levels of the hierarchy have taken place.
Their initial assessment takes into account the transaction costs directly attributable to the acquisition or the issuance costs that are included in the initial measurement of financial instruments. The fair value of instruments quoted on public markets is determined with reference to quoted prices (bid price) at the balance sheet date. The fair value of unquoted instruments, including those related to electricity, is instead measured with reference to the financial valuation techniques or using major financial counterparties. In particular, the fair value of interest rate swaps is measured by discounting the expected cash flows, the fair value of foreign exchange forwards is determined on the basis of market exchange rates at the balance sheet date and the rate differentials between the relevant currencies, while the fair values of derivatives related to commodities are calculated using models based on industry best practices.
In general, in applying those models, market data are used rather than internal company data.

TRADE RECEIVABLES

Trade receivables which accrue within the normal commercial terms are not discounted and are recognised at cost (identified by their nominal value) net of related impairment losses.
The management verified that the fair value of the trade receivables and trade payables, as well as of the cash and cash equivalents and short-term deposits and other current liabilities approximates the book value as a result of the short-term maturities of these instruments.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, i.e. assets that meet the requirements of availability on demand or at short notice, successful outcome and absence of collection expenses and are measured at fair value. For the purposes of representation in the cash flow statement, the cash and cash equivalents are represented by the liquid funds defined above.

CANCELLATION (DERECOGNITION) OF FINANCIAL ASSETS

Financial assets are derecognised from the balance sheet when the rights to receive cash flows from the instrument expires and the entity has transferred substantially all the risks and rewards relating to the instrument and the relative control.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale include any disposed assets if is presumed that their carrying value will be recovered primarily through sale rather than their continuous use.
This classification criterion only applies when the non-current assets are available in the present conditions for immediate sale and said sale is highly likely.
Non-current assets classified as held for sale are presented separately from other assets and liabilities in the balance sheet.
The amounts for non-current assets classified as held for sale are not reclassified or represented for previous years.

Immediately prior to the initial classification of non-current assets as held for sale, the book values of these assets are measured according to the IFRS / IAS applicable to the specific assets. These non-current assets classified as held for sale are measured at the lower of their carrying value and their fair value less costs to sell. Costs to sell are additional costs directly attributable to the sale, excluding financial expenses and taxes.
Non-current assets are not amortised, while they are classified as held for sale.

TRADE PAYABLES

The trade payables which accrue within the normal commercial terms are not discounted and are recognised at cost (identified by their nominal value).

FINANCIAL LIABILITIES

Financial liabilities, including borrowings and other payment obligations are initially recognised at cost corresponding to the fair value of the liability net of costs incurred to secure loans (transaction costs). Following initial recognition, financial liabilities are measured at amortised cost using the effective interest rate. Net financial charges are consequently restated on the basis of the effective interest rate method.
If there is a change in expected cash flows and the possibility exists to reliably estimate the value of the loans is recalculated to reflect this change on the basis of the present value of expected future cash flows and the internal rate of return originally determined. Financial liabilities are classified as current liabilities unless the entity has an unconditional right to defer settlement for at least 12 months after the balance sheet date.
A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled. Where an existing financial liability is replaced by another of the same lender, under substantially different conditions, or the conditions of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability, accompanied by the recognition of a new liability, with any differences in the book values posted to the income statement.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments including: interest rate swaps and forward commodity purchase contracts to hedge interest rates and commodity price risks respectively. These derivative financial instruments are initially recognised at fair value on the date in which the derivative contract is signed and, periodically, updated at each reporting date. Derivatives are accounted for as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. For hedge accounting purposes, there are three types of hedge:

- fair value hedge in the event of hedging of the exposure to changes in the fair value of the asset or liability recognised or unrecognised irrevocable commitment;
- cash flow hedge in the case of hedging of exposure to changes in cash flows attributable to a particular risk associated with all assets or liabilities recognised or a highly probable forecast transaction or foreign currency risk on an unrecognised firm commitment;
- hedge of a net investment in a foreign operation.

At the start of a hedging transaction, the company designates and formally documents the hedging relationship, to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.
The documentation includes the identification of the hedging instrument, the hedged element, the nature of the risk and the methods the company will use to evaluate whether the hedging relationship satisfies the hedge effectiveness requirements (including an analysis of the sources of hedge ineffectiveness and the way in which the hedging relationship is determined).
The hedging relationship satisfies the hedge accounting eligibility criteria if it meets all the following hedge effectiveness requirements:

- there is an economic relationship between the hedged element and the hedging instrument;
- the effect of the credit risk does not dominate the changes in value resulting from the aforementioned economic relationship;
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The transactions that satisfy all the criteria to qualify for hedge accounting are accounted for as follows:

i. Fair value hedges
The fair value change in hedging derivatives is recognised under other costs in the statement of profit/(loss) for the year. The fair value change in the hedged element attributable to the hedged risk is recorded as part of the carrying value of the hedged element and it is also recognised under other costs in the statement of profit/(loss) for the year.
As regards fair value hedges relating to elements accounted for using the amortised cost method, each adjustment of the carrying value is amortised in the statement of profit/(loss) for the year over the residual period of the hedge, using the effective interest rate method. Amortisation determined in this way may start as soon as adjustment exists but cannot extend beyond the date in which the element subject to hedging ceases to be adjusted due to the fair value changes attributable to the risk subject to hedging.
If the hedged element is cancelled, the fair value not amortised is recognised immediately in the statement of profit/(loss) for the year.
When an unrecognised firm commitment is designated as an element subject to hedging, subsequent cumulated changes in its fair value attributable to the hedged risk are accounted for as assets or liabilities and the corresponding profits or losses booked to the statement of profit/(loss) for the year.

ii. Cash flow hedge
The portion of the profit or loss on the hedged instrument, relating to the effective part of the hedge, is recognised in the statement of comprehensive income, under the "cash flow hedge" reserve, while the ineffective part is booked directly to the statement of profit/(loss) for the year. The cash flow hedge reserve is adjusted to the lower of the cumulated profit or loss on the hedging instrument and the cumulated variation in the fair value of the hedged element.

The Company only designates the spot component (intrinsic) of forward contracts as hedging instrument. The forward component (time) is cumulatively recognised in a separate item of the statement of other comprehensive income.
The amounts accumulated under other comprehensive income are accounted for depending on the nature of the underlying hedged transaction. If the transaction subject to hedging subsequently involves the recognition of a non-financial component, the amount accumulated under shareholders' equity is removed from the separate component of shareholders' equity and included in the cost value or other book value of the hedged asset or liability. This is not considered a reclassification of the items recognised in other comprehensive income for the period. This also applies in the event of a planned hedge of a non-financial asset or non-financial liability that subsequently becomes a firm commitment to which the accounting of fair value hedging transactions is applied.
For any other cash flow hedge, the cumulated amount in other comprehensive income is reclassified to the income statement as a reclassification adjustment in the same period or in periods during which the hedged cash flows impact the income statement.
If the accounting of the cash flow hedge is suspended, the cumulated amount in other comprehensive income must remain as such if the future hedged cash flows are expected to materialise. Otherwise, the amount must be reclassified immediately to profit/(loss) for the year as a reclassification adjustment. After the suspension, once the hedged cash flow is verified, any accumulated amount remaining in other comprehensive income must be accounted for depending on the nature of the underlying transaction as described previously.
It should be noted that the company considered that the bilateral contracts stipulated with Terna in order to guarantee the availability of productive capacity for the years 2022 and 2023 (capacity market) fall within the scope of application of the own use exemption.

EMBEDDED DERIVATIVES

Embedded derivatives included in other financial instruments or in other contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the latter are not stated at fair value with recognition of gains and losses in the income statement. The Company verifies the existence of any embedded derivatives, analysing the facts and circumstances which could have originated them, including, for example, any contracts regarding the receipt or sale of "non-monetary" assets according to specific company purchase, use or sale requirements.

EMPLOYEE BENEFITS

The short-term benefits are recognised in the income statement in the period in which the working activity is performed.
It is noted that, in connection with the pension reform of 2007, the provision for Post-employment benefits was restated, by adopting the new methodological approach, or considering that the amounts accrued as of January 1, 2007 are a defined contribution benefit and, therefore, not included in the calculation of liabilities. Where the provision accrued at December 31, 2006 is treated as a defined benefit plan, the benefits granted to employees are recognised over the vesting period, as well as other long-term benefits (Additional months' salaries, Tariff Incentives and Loyalty Bonuses).
The cost of providing benefits under the various plans is determined separately for each plan, using actuarial assumptions to estimate the amount of future benefits that employees have accrued at the reporting date.
The valuation of the liabilities in question is determined on the basis of independent actuarial assumptions. Gains and losses resulting from actuarial calculations are recognised in the income statement.
For defined contribution plans, contributions are only recorded when the employees have carried out their activities and therefore those contributions are accrued. In the latter case Tirreno Power pays fixed contributions into a separate entity (e.g. a Fund) and will have no legal or constructive obligation to pay further contributions if the fund is not solvent.

PROVISIONS FOR RISKS AND CHARGES

Provisions are recorded to cover losses and charges of a specific nature, certain or probable, in respect of which, however, the amount and/or date of occurrence cannot be determined.
Provisions for risks and charges are recognised when, at the reporting date, in the presence of a present obligation (legal or constructive) to third parties arising from a past event, it is likely that, to fulfil the obligation, an outflow of resources whose amount can be estimated reliably will be required. When the company considers that an allocation to the provision for risks and charges will be partly reimbursed, for example in the case of risks covered by insurance policies, this provision includes the amount of the actual liability considered likely.
When the financial effect of time is significant, the provision is discounted using a yield curve that reflects the time value of money expressed by the market and the risks associated with the liability.
If the provision is estimated taking into account the discounting process, the increase in provisions, due to the passage of time is recognised in the income statement as a financial charge. If the liability relates to tangible assets (e.g. dismantling and restoration of sites), the provision is recorded against the asset to which it relates; the expense is recognised in the income statement through the depreciation of the tangible asset to which the expense relates, as well as through the measurement of the financial expenses of the revaluation of the liability.
The estimate of the costs of future dismantling and remediation works is reviewed annually. Changes in the estimates of future costs or the discount rate applied increase or decrease the cost of the asset if they refer to the portion of the asset that will depreciate in subsequent periods.
The allocation of restructuring expenses takes place when the general criteria for allocation of a provision are respected. The Company has an implicit obligation when a detailed and formalised plan identifies the business unit concerned, the location and number of employees forming the object of the restructuring, the detailed estimate of costs and the implementation timescales. In addition, the personnel concerned must be informed of the main characteristics of the restructuring plan.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is possible to reliably determine its value (fair value) and it is probable that the associated economic benefits will be enjoyed by taking into account any discounts and reductions linked to quantities.
The company recognises revenues in order to faithfully represent the transfer of goods and services promised to customers, for an amount that reflects the consideration the company expects to be entitled to in exchange for the goods and services supplied. The recognition takes place through the application of this key principle and the use of the 5-step model provided by IFRS 15.
Revenues related to the sale of electricity are recognised at the time of delivery of supply, even if not invoiced, based on the actual sales prices on the Power Exchange or the conditions set forth contractually, taking into account the existing legislation.
Other revenues are determined according to the terms and conditions which take account of the risks and benefits transferred.

RECOGNITION OF COSTS

Costs are recognised in the periods in which the related revenues are recorded and, in general, in accordance with the accrual principle. Costs that cannot be associated with revenues are immediately recognised in the income statement. For the criteria for recognition and measurement of specific costs, the Company considers their nature and the reference accounting legislation.

FINANCIAL INCOME AND EXPENSES

The financial income and expenses are recognised according to the accrual method, based on the interest accrued on the amount of the related financial assets and liabilities using the effective interest rate.

GOVERNMENT GRANTS

Government grants, in the presence of a formal resolution by the disbursing entity, are recognised on an accruals basis in direct correlation with the costs incurred. In particular, the operating grants are classified to the item "Other revenues" in the income statement, while public capital grants that relate to property, plant and equipment are recorded as deferred revenue in balance sheet liabilities. The deferred income is recognised in the income statement as income on a straight-line basis over the useful life of the asset to which it directly relates.

INCOME TAXES

Current income taxes are recognised as tax payables and calculated based on the estimated taxable income determined in accordance with the provisions in force at the reporting date.
Deferred tax assets and liabilities are calculated on temporary differences between the carrying amounts and the corresponding amounts recognised for tax purposes applying tax rates that are expected to apply in the period when the asset is realised or the liability settled.
Deferred tax liabilities are recognised without exception for all taxable temporary differences. Deferred tax assets are only recognised if it is likely that, within a reasonable timeframe, taxable income emerges of a sufficient amount to absorb the deductible temporary differences and the underlying IRES losses to such deferred taxes.
Current and deferred taxes are recognised in the income statement, except those relating to items charged or credited directly to equity; in which case, the tax effect is recognised as a separate item in equity.

NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY

The company adopts IFRS 16 for the first time. The impact and nature of the amendments following the adoption of these new accounting standard is described below. Various other amendments and interpretations apply for the first time in 2019, but have no impact on the Company's financial statements. The Company did not arrange for the early adoption of any other standard, interpretation or amendment published but not yet in force.

IFRS 16 – LEASES

IFRS 16 was issued in January 2016 and replaces the standards IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for years beginning on January 1, 2019.
IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases in the financial statements based on a single accounting model similar to the one used to account for finance leases in accordance with IAS 17. The standard includes two exemptions to recognition for lessees - leasing of assets with a "low value" and short-term leases (i.e. lease agreements with a rental period of 12 months or shorter). At the lease start date, the lessee will recognise a liability relating to rental fees and an asset that represents the right to use the underlying asset during the term of the lease. Lessees will be required to separately recognise interest expense on the leasing liability and amortisation on the right of use.

It should be noted that the company decided to use the practical expedient allowed by the standard, which enables it to apply the standard solely to contracts previously identified as leases in application of IAS 17 and IFRIC 4 at the date of first-time application (so-called "Grandfathering" principle). It also decided to use the exemption provided for contracts that, at the effective date, present a term of 12 months or less and do not contain purchase options (short-term leases), and whose underlying asset is of a modest value (low value lease). Lastly, it should be noted that the company decided to use the modified retroactive approach according to which it did not re-state the data of the comparative year.
Lessees will also be required to reconsider the amount of the liability relating to the lease on verification of given events. Generally speaking, the lessee will recognise the difference from remeasurement of the amount of the leasing liability as an adjustment of the right of use.
The accounting method for the lessor in respect of IFRS 16 remains essentially unchanged with respect to the previous accounting policy according to IAS 17. Lessors will continue to classify all leases using the same classification principle set forth in IAS 17 and by distinguishing between the two types of lease: operating and finance lease.
The Company decided to make use of the two exemptions reported above and the application of IFRS 16 involved:

1. the recognition of a liability relating to lease fees for the offices in the Rome and Genoa sites;
2. the recognition of a liability relating to long-term rental fees for company cars.

The effects of the adoption of the new standard IFRS 16 are reported hereunder:

	01.01.2019					12.31.2019
(IN THOUSANDS OF EURO)	ASSETS	FINANCIAL PAYABLES	ASSETS	FINANCIAL PAYABLES	AMORTISATION CHARGE	FINANCIAL INTEREST
Capitalisation of rent agreements	1,787	-1,787	1,548	-1,574	239	64
Capitalisation of car agreements	751	-751	513	-538	238	24
TOTAL	2,538	-2,538	2,061	-2,112	477	88

It should be noted that the fees are discounted at the company's marginal rate of financing, equal to 3.42%.
With specific reference to state concessions, both hydroelectric and thermoelectric use, the company carried out an assessment in order to verify whether the requirements are met for the inclusion of these concessions under IFRS 16. The analysis conducted by management showed that the concessions in question do not fall under the scope of application of IFRS 16 given that, in the case of hydroelectric concessions, it is believed that the control requirement needed for the recognition of an asset is not respected. By contrast, in the case of hydroelectric concessions, the company availed itself of the aforementioned "Grandfathering" expedient. Therefore, from January 1, 2019, the company continued to account for the state fees defined by the concessions under management operating costs.

STANDARDS ISSUED BUT NOT YET IN FORCE

The standards and interpretations that, at the reporting date, had been issued but were still not in force and which are expected to be able to have an impact on the Group's financial position, its results and on the representations and/or disclosures, are illustrated hereunder.
The Company intends to adopt these standards and interpretations, if applicable, when they enter into force.

AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, in order to align the definition of "material" in the standards and clarify certain aspects of the definition. The new definition indicates that an item of information is material if, as a result of its omission, or due to an incorrect or incomprehensible presentation ('obscuring'), it is expected to be able to influence the decisions the main financial statements users would make on the basis of the financial information contained therein.
The changes to the definition of material are not expected to have a significant impact on the company's financial statements.

Type of risks and management of hedging activities

Risk management is an integral and fundamental part of the strategies of every organisation and the process through which companies tackle the risks connected with their activities, with the objective of obtaining long-lasting benefits.
The basis of good risk management consists of identifying and dealing with risks in order to allow an understanding of the potential positive and negative aspects of all factors that can influence the organisation. Risk management, a continuous and gradual process that involves the entire organisation strategy and its implementation, must be engrained in the company culture through an effective policy and a project managed by the company's top management, in order to turn the strategy into objectives and assign responsibilities at all levels of the organisation, making every person responsible for risk management.
For Tirreno Power S.p.A., in general, risk-taking is limited, in nature and extent, to those which, according to principles of sound and prudent management, are the risks considered ordinary.
The "Risk Management Manual" sets out, on the one hand, the general principles for managing the company's main risks, consistently with the strategic objectives identified and, on the other, the methods of coordination between the entities involved in order to maximise the effectiveness and efficiency of the Internal Control and Risk Management System.
The Manual sets forth that the General Manager, as the company's Risk Owner, has the responsibility and ownership for the management of company risks, with the exclusion of "Environmental risk" and "Health and safety risk" for which the responsibility falls to the "Employer" of the various Organisational Units. The Risk Owner and the Employer are supported by Management in identifying and assessing risks, as well as defining the risk management policies.
The Company distinguishes two risk macro-categories: **Financial and Market Risks** and **Other Risks**. Financial and Market Risks mean those deriving from the impact they could have on margins and expected cash flows and, more specifically: future fluctuations in one or more specific interest rate or exchange rates, financial instruments, prices of energy and raw materials, prices of CO_2 emission rights. Other types of risk that are also associated to the category of financial risks, and in particular credit and liquidity risk, are dealt with separately.
Financial and Market Risks include ***Market Risk, Interest Rate Risk*** and ***Exchange Rate Risk***. By contrast, the following sub-categories are also included in Other Risks: ***Counterparty Risk, Liquidity Risk, Environmental Risk, Legal Risk, Legislative/Regulatory Risk, Image Risk and Health and safety risk.***
The different types of risk are monitored in order to assess the potential adverse effects and take the appropriate actions to mitigate them. The optimisation and the reduction of the level of risk is pursued through an adequate organisational structure, the adoption of rules and procedures, the implementation of certain trade and procurement policies, the use of insurance coverage and hedging derivative financial instruments.
For the monitoring and management of Financial and Market Risks, the Risk Owner is supported by the Risk Committee, with advisory functions in relation to the risk management process. The Committee, composed not only of the General Manager, but beyond the Head of Energy Management and Production and the Head of Administration, Finance and Control, meets once a month and is responsible for supporting the Risk Owner in analysing and preparing the necessary documentation for implementing the hedging strategies, as well as proposing the "Hedging Policy" and the quarterly updates to be submitted to the BoD for approval.
We focus below on the risks, from those listed, with the biggest impact for the Company.

MARKET RISK

Market risk is the risk that the value of a financial instrument, as defined by IAS 32, will fluctuate because of changes in market prices or exchange rates.
Owing to the nature of its business, the Company is exposed to changes in the prices of electricity, fuel and environmental costs (CO_2 emission rights) that can significantly influence the financial results.
To mitigate this exposure, it has developed a strategy of stabilising margins by means of the early negotiation of fuel supply. Through formulas or indexing, the company pursues, as far as possible, a policy of standardisation between sources and physical uses.
The Company has also implemented a formal procedure that provides for the measurement of the residual price/commodity risk and the implementation of hedging operations. Hedging transactions may have the objective of stabilising the margin on an individual transaction or a group of similar transactions, or to limit overall exposure to price risk. Tirreno Power does not adopt speculative positions in financial instruments.
As at December 31, 2019, the Mark to Market value of the instruments in place totalled Euro -624 thousand in relation to electricity price hedging instruments, and Euro 612 thousand in relation to gas price hedging instruments.

INTEREST RATE RISK ON CASH FLOWS

The exposure to the risk of changes in the Company's interest rate is linked primarily to the financial debt which, even if now to a lesser extent, is at floating rate. The Company, taking into account the contractual obligations, regularly assesses its exposure to the risk of changes in interest rates and manages these risks through the use of non-speculative derivative financial instruments.
The Hedging Policy aims to stabilise cash outflows relating to financial expenses, reducing the effects of increases in interest rates and at the same time retaining some of the benefits associated with a reduction of the same through a combination of debt between fixed and floating rate.
In 2019, in consideration of the accelerated repayment of Tranche A of the existing debt as illustrated below, the company arranged for the early extinguishment of the interest rate cap stipulated in 2017. The only floating rate line of financing remains the Revolving Facility of Euro 50,000 thousand, currently not drawn down.

COUNTERPARTY RISK

Counterparty risk, or more commonly known as credit risk, represents the Company's exposure to potential losses arising from the default of a counterparty.
Credit risk is limited due to the characteristics and the creditworthiness of the customers served. The portfolio of accounts receivable is constantly monitored by the relevant departments. Tirreno Power also pays particular attention to the selection of prime counterparties (both commercial and financial), the evaluation of supplier references in terms of the customers served and respect for supply/service obligations, in the definition of contractual penalties in cases where the non-fulfilment of the obligation by the third party may have economic consequences for the company in the issue and request for guarantees, especially financial, for entering into derivative contracts according to ISDA standards.
As for the payment terms applied by most customers, deadlines are mostly concentrated within thirty or sixty days from billing, normally monthly and is carried out within the month following the month of the supply.
The monitoring and analysis of counterparty risk is entrusted to the Internal Credit Risk Committee, composed of the Risk Committee (mentioned above), with the addition of the Head of Legal and Corporate Affairs, which evaluates existing exposures on a monthly basis per individual counterparty and deliberates on credit facilities. The main monitoring tool used is the weekly statement of exposure for each individual counterparty, also containing alert mechanisms when given exposure thresholds of attention are reached.
At the date of these financial statements, the credit risk is reduced as the trade receivables relate to counterparties with a high credit standing; in fact, around 90% of current trade receivables

are attributable to institutional counterparties like Terna SpA, Gestore dei mercati energetici SpA (GME) and Gestore dei servizi energetici SpA (GSE).

LIQUIDITY RISK

The liquidity risk is related to the possibility that the Company is in a situation of difficulty in meeting the financial obligations arising from contractual commitments and, more generally, from its financial liabilities.
This risk is closely tied to the Restated Facilities Agreement signed with the lenders, as described in note 10 “Payables for loans”. The following table summarises the contractual expiry date for the financial and trade assets and liabilities at the date of these financial statements.

EXPIRY OF FINANCIAL ASSETS AND LIABILITIES (THOUSANDS OF EURO)	WITHIN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	TOTAL
Cash and cash equivalents	26,424			26,424
Derivative financial instruments	612			612
Trade receivables and other assets	119,626	37,449	10,474	167,549
Total financial assets	**146,662**	**37,449**	**10,474**	**194,585**
Financial payables	46,964		284,565	331,530
Trade payables and other liabilities	87,753	822		88,575
Derivative financial instruments	624			624
Total financial liabilities	**135,342**	**822**	**284,565**	**420,729**
TOTAL NET EXPOSURE	11,321	36,627	(274,091)	(226,144)

LEGAL RISK

This is the risk of the Company suffering negative repercussions from violations of laws or regulations and contractual and non-contractual liability.
Through the Legal and Corporate Affairs Department, the company monitors the risks identified through:

- verification of compliance with the regulatory provisions;
- an analysis of the legal documents and contracts, by verifying, in particular, the clauses of acceptance of the Code of Ethics and of the Organisational and Management Model pursuant to Legislative Decree 231/01;
- monitoring of the contractual standards in use.

In the event of the signing of international contracts, the Legal and Corporate Affairs Department verifies that they are consistent with the frameworks set forth in international conventions or approved by international trade associations.

LEGISLATIVE/REGULATORY RISK

This risk identifies the eventuality that the Company may suffer negative consequences, in economic or capital terms, or damage to its reputation, as a result of the issuing of primary legislation or resolutions of the regulatory authorities. For the analysis of legislative and regulatory risk, and the monitoring of the activities impacted, Tirreno Power has, through the following functions, implemented the following instruments:

- Institutional and Regulatory Affairs Work Group – The work group meets monthly and the General Manager and Heads of the main functions exposed to risk (Energy Management, AFC and Production) take part. In this area, based on a document prepared by the Regulatory, Institutional and Communication Organisational Unit, all the main regulatory and legislative events which could have an impact on Tirreno Power are discussed and any actions to be taken are evaluated (if necessary, also through the launch of specific studies, also assigned to specialist advisors). Closer coordination has been initiated between the Energy Management Department and the Regulatory, Institutional and Communication Organisational Unit, which periodically meet to discuss matters of reciprocal interest.
- Regulatory Dashboard - On a four-monthly basis, the Regulatory, Institutional and Communication Organisational Unit prepares a document that summarises all the regulatory and legislative issues that, during the reference period, have determined potential impacts for the Company. The document is published on the company intranet and made accessible to all employees. In addition, a periodic newsletter, for use by the functions most impacted, contains a specialist press review on the regulatory, institutional and market issues.
- Association activities - Tirreno Power participates in some trade associations (for example, Energia Libera and Unione Industriali di Savona), with the objective of monitoring the legislative-regulatory framework, promoting the reporting and exchanging of information with the institutions, and promoting and participating in initiatives to protect the company's position.

IMAGE RISK

Image risk is the risk of the Company suffering negative repercussions on its reputation, with particular regard to the management of institutional communications.
Control of the activities exposed to risk through the constant monitoring of the perception of the Tirreno Power brand by stakeholders and specific communication and information activities, targeted at maintaining an excellent brand reputation.
The Corporate Affairs Department is responsible for the actions targeted at the correct implementation of the risk management policies, which ensures the development of relational capital and the identity of the company, the definition of the corporate image and brand identity strategies and strengthening of the Company's reputation.
The Company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- Press Review – The company is equipped with a press review service which, through a daily newsletter, reports the news that appears in the press in relation to the Company, its shareholders, the reference areas and some important themes.
- Media relations – The Regulatory, Institutional and Communication Organisational Unit deals with the press office functions, supported by an advisor who handles relations with the local and national press publications.

- Practice of management of critical events – The Company has defined a communication flow dedicated to the management of emergency situations, in order to monitor any particularly urgent or relevant cases.

Furthermore, the company implements proactive communication initiatives in the media and takes part in conferences in order to improve the company's reputation, by reducing its image risk.

ENVIRONMENTAL RISK

This risk identifies the eventuality that the Company may suffer negative consequences, in economic or capital terms, or damage to its reputation, or in terms of the safety of personnel, as a result of environmental pollution resulting from the operation of thermoelectric plants.
The company policy consists of the prevention of all forms of environmental pollution or environmental damage connected with the operation of its thermoelectric plants; of the prevention of possible risky events through the development and implementation of plant management and maintenance procedures certified according to ISO 14001 standards, of the development of regular technical-operating training programmes for personnel in the field and in the mapping and analysis of near accidents; as well as of the transfer of risks through the stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents.
The Company monitors and manages the risk through the following non-exhaustive list of analyses and instruments:

- stipulation of adequate insurance policies to cover any damages and civil liability connected with accidents; It should be noted that Tirreno Power has also always been equipped, accompanying its Third-Party Civil Liability Insurance Policy, with a specific Pollution Civil Liability policy to cover the risk of "gradual pollution", where the Third-Party Civil Liability Policy only covers damages stemming from "accidental" pollution.
- implementation of an appropriate Environment Management System for the company and for thermoelectric assets, regulated by the proper Manual which conforms to the UNI ISO 14001 standards;
- development of regular technical-operating training programmes for personnel in the field and the mapping and analysis of near accidents;
- plants in line with the Best Available Techniques.

NOTES TO THE BALANCE SHEET

Assets

NON-CURRENT ASSETS

1. PROPERTY, PLANT AND EQUIPMENT

Details of tangible fixed assets are provided below, by individual category, along with the changes in the period:

(THOUSANDS OF EURO)	FIXED ASSETS IN OPERATION					FIXED ASSETS IN PROGRESS AND ADVANCES	BOOK VALUE
	LAND AND BUILDINGS	RIGHTS OF USE	PLANT AND EQUIPMENT	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER ASSETS		
• historical cost as at 12.31.2018						12,646	2,278,712
• write-downs (-) as at 12.31.2018							(129,942)
• accumulated depreciation (-) as at 12.31.2018	(142,501)	0	(1,328,608)	(8,398)	(3,994)		(1,483,502)
Values as at 12.31.2018	**73,319**	**0**	**578,048**	**476**	**779**	**12,646**	**665,267**
IFRS 16 first-time recognition		**2,538**					**2,538**
Opening values as at 01.01.2019	**73,319**	**2,538**	**578,048**	**476**	**779**	**12,646**	**667,805**
Changes							
• acquisitions	909		10,581	49	562	11,889	23,990
• reclassifications	(26)		762				736
• disposals (-) of which:							
historical cost	*(52,011)*		*(6,254)*				*(58,265)*
accumulated depreciation	*43,408*		*4,564*				*47,972*
use of write-down provision	*8,603*		*267*				*8,870*
• depreciation	(5,157)	(477)	(48,086)	(110)	(221)		(54,051)
• write-downs (-)							0
• commissioning	423		4,900		97	(5,420)	0
• other changes			4,823				4,823
Total changes (B)	**(3,851)**	**(477)**	**(28,443)**	**(61)**	**438**	**6,469**	**(25,925)**
Values as at 12.31.2019	**69,468**	**2,061**	**549,604**	**415**	**1,217**	**19,115**	**641,879**
Of which							
• historical cost	176,011	2,538	2,040,515	8,924	5,431	19,115	2,252,533
• write-downs (-)	(2,292)	0	(118,780)				(121,072)
• accumulated depreciation (-)	(104,250)	(477)	(1,372,130)	(8,508)	(4,215)		(1,489,581)
NET VALUE	69,468	2,061	549,604	415	1,217	19,115	641,879

As at December 31, 2019 the value of property, plant and equipment amounted to Euro 641,879 thousand. During the year, the Company reported investments totalling Euro 23,990 thousand, of which Euro 11,889 thousand related to "fixed assets in progress and advances" and Euro 12,101 thousand relating to the "fixed assets in operation".
Investments relating to fixed assets in operation (Euro 17,521 thousand including commissioning) primarily concerned:

- Vado Ligure plant safety activities following the sale of areas of land to the company Vernazza Autogru;
- safety and environmental adaptation measures of the plants in operation;
- the purchase of gas compressor spare parts of the Naples plant and BOP (Balance of Plant) system maintenance activities;
- the two-yearly Minor Inspection of unit TV5;
- costs relating to the two-yearly Minor Inspection and five-yearly Major Inspection of combined cycle unit VL5.

By contrast, as regards the investments in Fixed assets under construction and payments on account, amounting to Euro 11,889 thousand, note should be taken of the purchase of a new rotor to be installed in the Torrevaldaliga Sud combined cycle plant during the next scheduled shutdown in 2020, preliminary activities prior to the next inspection of hot parts (HGPI) of the Naples plant and for the upgrade of the distributed control system (DCS) installed at the Torrevaldaliga plant.
The **reclassifications** of the item "Plant and machinery" concern the capitalisation of strategic spare parts already present in the warehouses of the Vado Ligure plant. For more details, please refer to the comments on the item Inventories, in note no. 7. The reclassifications of the item "Land and buildings" instead refer to the book value of the areas of land of the Vado Ligure plant that will be sold to Società Autoliguria Srl, as per the purchase proposal accepted on December 16, 2019. These fixed assets were therefore reclassified to the item "Non-current assets held for sale" as required by IFRS 5 as assets held for sale, considering that the transaction is carried out within twelve months of the reporting date.

Disposals amounted to Euro 10,293 thousand, and related:

- for Euro 8,870 thousand, to the assets relating to the Desox area of the Vado Ligure plant sold in December 2019 to the company Vernazza Autogru, as better outlined in the section "Operating structure". In this regard, it should be noted that these assets were written down in full.
- for Euro 1,423 thousand, to the sale of the Torrevaldaliga plant rotor, generating a capital gain from disposal for Euro 47 thousand, with respect to the sale price of Euro 1,470 thousand.

The **other changes**, amounting to Euro 4,823 thousand, refer exclusively to the adjustment of the expenses of dismantling of the CCGT plants as a result of a significant change to the inflation rates (from 1.75% to 1.4%) and discounting rate (from 4.7% to 3.5%) used for estimating the future liability.

The **impairment test** as at December 31, 2019 was performed on the sole CGU of Tirreno Power, using the cash flows relating to the 2020-2039 period, the period in which the useful life of the production plants will come to an end, extrapolated from the 2020-2026 Business Plan approved by the Board of Directors, which acknowledges the market scenario requested from REF-E with the forecast curves of the energy markets in December 2019, updated to take account of both the additions and changes in regulatory and industrial terms, and the main actions taken as of today by management whose effects will be felt in future years.
The flows are also updated with the final data reported for 2019 and with the data of the 2020 budget.
The impairment test showed a recoverable amount exceeding the net book value. Therefore, there was no need for write-downs of corporate assets.
Operating cash flows are stated net of taxes and the post-tax discount rate of operating cash flows (Wacc) used was 5.96%. This value is the result of the valuation in December 2019 of the rates

and prospective returns forming the basis of the calculation of said perimeter. The updated Wacc recorded a decrease with respect to that used for the impairment test in December 2018 (6.48%), consistent with the reduction of market rates and the reference returns.
The sensitivity analyses carried out on the recoverable amount to a change of +/- 100 bps in the WACC and on the Risk scenario, with a 10% reduction in DSM margins, confirm the results of the impairment test.
The **Depreciation** of tangible fixed assets charged to the period mainly affected the combined cycle thermoelectric production sites (Euro 37,118 thousand), the relevant Major Inspections (Euro 12,683 thousand) and dismantling costs (Euro 441 thousand), and are calculated using the economic-technical rates representative of the useful life of each component.
As for freely transferable assets, depreciation is proportional to the duration of the associated concession if shorter than the useful life.
Tangible fixed assets as at December 31, 2019, classified according to their use, are divided as follows:

PRODUCTION PLANTS	ORIGINAL COST	ACCUMULATED DEPRECIATION	NET VALUE	WRITE-DOWN PROVISION	NET REPORTED VALUE
Thermoelectric plants	2,087,427	(1,410,382)	677,045	(121,072)	555,973
Freely transferable assets	2,132	(2,130)	2		2
Total	**2,089,560**	**(1,412,512)**	**677,047**	**(121,072)**	**555,975**
Renewable sources plants	89,505	(43,482)	46,023		46,023
Freely transferable assets	31,346	(15,910)	15,436		15,436
Total	**120,851**	**(59,392)**	**61,459**		**61,459**
Total production plants	**2,210,411**	**(1,471,904)**	**738,507**	**(121,072)**	**617,434**
Other plants and machinery, equipment, other assets	23,005	(17,677)	5,328		5,328
Total operating assets	**2,233,416**	**(1,489,581)**	**743,836**	**(121,072)**	**622,763**
Fixed assets in progress and advances	19,115		19,115		19,115
TOTAL	2,252,533	(1,489,581)	762,951	(121,072)	641,879

As at December 31, 2019 there are no tangible fixed assets for which any collateral securities have been granted to third parties.

2. INTANGIBLE ASSETS

A table is provided below, which details the original values and changes:

(THOUSANDS OF EURO)	INDUSTRIAL PATENTS AND SOFTWARE APPLICATIONS	EMISSION RIGHTS AND OTHER ASSETS	FIXED ASSETS IN PROGRESS AND ADVANCES	BOOK VALUE
• historical cost as at 12.31.2018	9,242	35,049	98	44,390
• accumulated amortisation (-) as at 12.31.2018	(8,714)	(33)		(8,747)
Opening values as at 01/01/2019(A)	**528**	**35,017**	**98**	**35,643**
Changes as at 12.31.2019				
• acquisitions	121	50,066	357	50,544
• reclassifications	54		(54)	0
• amortisation (-)	(288)	(1)		(289)
• other changes		(32,377)		(32,377)
Total changes (B)	**(113)**	**17,688**	**303**	**17,878**
Changes as at 12.31.2019 (A+B)	**415**	**52,704**	**401**	**53,520**
Of which				
• historical cost	9,417	52,738	401	62,556
• write-downs (-)				
• amortisation (-)	(9,002)	-34		(9,036)
NET VALUE	415	52,704	401	53,520

The item emissions rights and other assets essentially refers to 2,237,478 CO_2 emission rights for an amount of Euro 52,694 thousand.
The increase in CO_2 quotas relates to the purchase of 2,042,500 emission rights for a total of Euro 50,066 thousand. The decreases instead relate to the delivery of 2,278,445 CO_2 certificates for Euro 32,377 thousand, in compliance with the Company's obligations for 2018.
The significant increase in the value of CO_2 rights refers to the higher price recorded for the purchase of rights in 2019 with respect to 2018, as better detailed previously in the management report.

3. NON-CURRENT FINANCIAL ASSETS

This item refers to financial receivables due after 12 months.

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES
loans to personnel	432	417	15
security deposits	10,042	6,371	3,671
TOTAL NON-CURRENT FINANCIAL ASSETS	10,474	6,788	3,686

Security deposits mainly include, for Euro 6,056 thousand, the deposit in favour of Terna SpA for the dispatching contract for the injection and withdrawal points issued in 2015; as well as for Euro 3,711 thousand the deposit for participation in the Capacity Market auctions as per Ministerial Decree of June 28, 2019, which then formally launched the Capacity Market mechanism in Italy based on which the auctions relating to the delivery of energy for 2022 and 2023 were held.
It should be noted that "loans to employees", remunerated at current market rates and guaranteed by post-employment benefits, were granted for the purchase of a first home or to meet important family needs.
As at December 31, 2019, there were no financial assets carried at a value greater than their fair value.

4. DEFERRED TAX ASSETS

Until the previous financial statements, the company saw fit to recognise deferred tax assets relating primarily to the tax losses accrued in previous years and on the deductible temporary differences.
As at December 31, 2019, the company - in light of the results obtained, as well as the forecasts of future taxable income deriving from the updated plan suited to absorb the active temporary differences in tax - saw fit to recognise deferred tax assets which are estimated can be recovered in the period up until 2023, the year in which the current regulated Capacity Market system will expire and owing to the still limited visibility of the subsequent regulatory system.
The item therefore includes:

- for Euro 22,857 thousand, the deferred tax assets relating to previous tax losses;
- for Euro 11,966 thousand, the deferred tax assets relating to temporary differences deductible in subsequent years.

It should be noted that, as at December 31, 2019, unrecognised deferred tax assets amounted to around Euro 14.5 million, given not usable over the time period indicated above.
Lastly, the item, amounting to Euro 725 thousand, includes the tax effect on the fair value change booked to shareholders' equity in application of IAS 19, relating to Post-employment benefits and personnel benefits and IFRS 9 relating to hedging derivative financial instruments.

5. OTHER NON-CURRENT ASSETS

The item, amounting to Euro 37,449 thousand, mainly includes:

- for Euro 26,500 thousand, the VAT credit accrued in 2019 for which the company will submit a refund request and which is expected to be collected in 2021;
- for Euro 10,211 thousand, the residual credit for ETS quotas due, for the years 2010-2012 for the Naples plant.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The item, currently at zero, included the mark-to-market value of Euro 411 thousand as at December 31, 2018, of the interest rate hedge stipulated in May 2017.
The financial instrument was extinguished in November 2019, in consideration of the accelerated repayment of Tranche A of the existing debt as illustrated below in note no. 10.

7. INVENTORIES

Inventories of fungible goods, as regards the method for determining the purchase price, show a balance sheet valuation based on the weighted average cost method.
These inventories are booked net of a provision for obsolete goods, recognised primarily in previous years, as a result of the events that occurred and the decisions taken in relation to the Vado Ligure site regarding the coal units, as well as for materials whose possibility of use and/or sale relating to the other two thermoelectric sites appeared doubtful.
In 2019, the company continued with the disposal of these tangible assets, by homogeneous groups. In particular, goods were written off for a total of Euro 5,163 thousand, already fully written down.
Again in 2019, a project was completed to rationalise inventories of spare parts, with an eye on future use, in consideration of the current plant operations. In this regard, doubts emerged regarding the possible use and/or sale of some non-strategic materials, doubts that were also confirmed by the recent Major Inspections during which their use was reduced or were not used at all. Therefore, for these materials, a provision was set aside, for the adjustment of their value, totalling Euro 820 thousand. In addition, as already indicated in note no. 1, some materials for an amount of Euro 762 thousand, considered strategic for plant operation, were reclassified to assets and depreciated together with the main asset to which they refer.
Details of inventories are provided below by type:

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES
Tangible inventories	12,802	14,354	(1,551)
Other inventories	33	60	(27)
TOTAL INVENTORIES	12,835	14,413	(1,579)

The decrease is attributable primarily to the write-downs and reclassifications highlighted above.

8. TRADE RECEIVABLES

This item, amounting to Euro 72,583 thousand, mainly includes trade receivables for the sale of energy.

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES
Receivables for sale of energy:			
• GME	1,535	10,763	(9,228)
• Terna S.P.A.	61,870	45,930	15,940
• Other operators	9,157	35,780	(26,623)
Total receivables for sale of energy:	**72,562**	**92,473**	**(19,911)**
Other trade receivables	**21**	**298**	**(277)**
TOTAL TRADE RECEIVABLES	72,583	92,771	(20,188)

It should be noted that almost all of these receivables arose over the last two months of the year and to the date of this note is essentially fully collected or collectible, given that the relevant expiries are in 30/60 days.
For more details on the changes, please refer to what was indicated previously in the management report in the section “Analysis of the capital structure”.

9. OTHER-CURRENT ASSETS

The item, amounting to Euro 46,971 thousand, mainly includes tax credits. The latter, at the balance sheet date, amounted to Euro 41,812 thousand and mainly include the receivable due from the tax authorities for the VAT for which a refund was requested, and more specifically the year 2018 (Euro 32,000 thousand, collected at the end of January 2020) and the 3rd quarter of 2019 (Euro 8,000 thousand); plus the associated interest accrued (Euro 242 thousand).
The item also includes loans to shareholders, amounting to Euro 2,006 thousand, relating to IRES (corporate income tax) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax. The monitoring and management of the collection of these receivables subject to the transparency regime were handled directly by the Shareholders.
Lastly, receivables due from social security institutions were booked for a total of Euro 910 thousand relating essentially to sums paid in advance to employees for social shock absorbers relating to the Cassa Integrazione Guadagni Straordinaria (Extraordinary Wages Guarantee Fund) and previous solidarity contracts.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes, for Euro 612 thousand, the fair value of the financial derivative contracts in place as at December 31, 2019 to hedge fluctuations in the price of natural gas for a notional 154 MWh and expiring in 2020.

11. OTHER CURRENT FINANCIAL ASSETS

Other current financial assets, amounting to Euro 73 thousand, refer to financial commissions paid and not yet accrued.

12. CASH AND CASH EQUIVALENTS

The item, amounting to Euro 26,424 thousand includes, essentially, the positive balances of accounts held with leading banks.

13. NON-CURRENT ASSETS HELD FOR SALE

The item, amounting to Euro 865 thousand, includes the book value of the areas of land subject to sale to the company Vernazza Autogru, a sale which was then finalised by means of deed of sale of March 6, 2020, as well as those subject to sale to the company Autoliguria Srl, whose deed of sale, it is believed, will be signed within twelve months of the reporting date.
For a detailed description, please refer to the section “Operating structure” as regards the re-industrialisation of the Vado Ligure site.

LIABILITIES AND SHAREHOLDERS' EQUITY

14. SHAREHOLDERS' EQUITY

For information on changes in shareholders' equity, please refer to the statement of changes in shareholders' equity.
The item "Other reserves", amounting to Euro 126,794 thousand, is composed as follows:

- Reserve from contribution of subscription of Junior PFIs amounting to a nominal Euro 284,386,754, approved at the Extraordinary Shareholders' Meeting on December 16, 2015 and recorded at fair value, amounting to Euro 204,000,000. This reserve was also reduced for the coverage of losses resolved at the same extraordinary shareholders' meeting amounting to Euro 88,735 thousand. The amount of this reserve as at December 31, 2018, is therefore Euro 115,265 thousand;
- Legal reserve for Euro 2,704 thousand;
- Available reserve for coverage of losses for Euro 9,243 thousand;
- IAS 19R Reserve - Post-employment and other benefits, negative for Euro 409 thousand;
- CFH reserve for hedging of gas supplies and energy sale for a negative Euro 9 thousand.

The item "Accumulated gains and losses" includes the carry-forward of profits from the previous year, amounting to Euro 38,186 thousand, as approved by the shareholders' meeting on March 26, 2019, as well as the IFRS reserve for retained earnings of Euro 831 thousand. The latter reserve, as already indicated in the previous financial statements, includes the reclassification performed at the opening of 2018 to cancel the higher cost of the contract to hedge the interest rates on Tranche A charged to the income statement in 2017 in application of previous accounting standard IAS 39.
The share capital as at December 31, 2019 is represented by 60,516,142 ordinary shares with a nominal value of Euro 1.00 each, fully paid up and held by ENGIE Italia S.p.A. (50%) and ENERGIA ITALIANA S.p.A. (50%).
Details of items of shareholders' equity and an indication of their possibility of use and distribution, as well as their use in previous years, is provided below:

NATURE/DESCRIPTION	AMOUNT	POSSIBILITY OF USE	AMOUNT AVAILABLE	SUMMARY OF USES MADE IN PREVIOUS THREE YEARS	
				TO COVER LOSSES	FOR OTHER REASONS
Share capital:	**60,516**				
Capital reserves:					
Reserve from contribution of subscription of Junior PFIs	115,265	B			
Available reserve for coverage of losses	9,243	B		58,957	
Profit reserves:					
Legal reserve	2,704	B			
IFRS 9, CFH and IAS 19 reserves	-419	B			
Retained earnings	39,018	B			
TOTALE RISERVE	165.811				

Key: A: for share capital increase - B: to cover losses - C: for distribution to shareholders

Based on the provisions of the company's articles of association, the distribution of profits cannot be approved until the credit lines of the Restated Facilities Agreement are repaid in full. The Participating Financial instruments (PFIs), as defined in art. 2346, paragraph 6 of the Italian Civil Code, are financial instruments with equity or administrative rights, excluding voting rights at the shareholders' meeting. The articles of association govern their methods and conditions of issue, the rights of entitlement, sanctions for non-performance of the services and, if permitted, the methods of circulation. The PFIs are therefore included in the so-called hybrid financial instruments. This definition means instruments with similar characteristics, both shares and obligations in relation to the characteristics outlined for the instrument, but with their own identity. Each financial instrument is measured according to its own characteristics, from which is also derived the valuation method that is better able to define the value. The features of the PFIs can be identified by their own regulation.
The Junior PFIs are fully regulated by the Articles of Association of the Company, and more precisely, Annex 1 "Regulations of the participating financial instruments of the Senior and Junior categories of Tirreno Power S.p.A.".
PFIs do not, under any circumstances, entitle holders the right to attend or to vote at the ordinary and extraordinary shareholders' meeting of the Company.

NON-CURRENT LIABILITIES

15. PAYABLES FOR LOANS

"Payables for loans" refer to the Restated Facilities Agreement signed with the financial institutions on December 15, 2015 and modified with the Amendment Agreement on January 31, 2018. The original composition of the credit lines is as follows:

- "Tranche A" of Euro 300,000 thousand, to be repaid based on a repayment plan starting from a date no earlier than June 30, 2017, remunerated at the Euribor rate + 2.07%, maturity in December 2022 (+ optional extension for another 2 years);
- "revolving credit facility" of Euro 50,000 thousand remunerated at the Euribor rate + 2% with the possibility of repayment and drawdown up to the maturity date set for December 2022 (+ optional extension for another 2 years);
- Tranche B of Euro 250,000 thousand ("convertible" credit line), remunerated at a rate of 3.42% PIK, maturity in December 2024 (with the possibility of optional extension for another 2 years);
- Hedging credit line of Euro 2,309 thousand repaid with repayment plan comprised of 6 semi-annual instalments starting from June 30, 2017, remunerated at the Euribor rate + 2%.

As for the Convertible credit line, the Company will have the right to arrange for its full or partial conversion to Senior PFIs up to a limit of Euro 230 million, to meet capital/financial requirements for operations, or to remedy capital deficiencies or, lastly, address violations of the leverage ratio.
It should be noted, in fact, that from June 30, 2020, the Company is required to respect the following two financial covenants:

- total amount of shareholders' equity of no lower than Euro 37.5 million;
- a leverage ratio, i.e. ratio of the net financial position to accumulated EBITDA in the previous 12 months which, as at June 30, 2020, must not exceed 6.18 for the purposes of the above conversion and 6.88 for default purposes.
- As at December 31, 2019, the residual debt relating to the above credit lines, net of repayments made and including capitalised interest, was composed as follows:
- Euro 46,377 thousand "Tranche A";

- Euro 284,565 thousand Tranche B ("Mandatory convertible bond" credit line);

while the hedging credit line was repaid in full and the Revolving credit facility has still not been used. Capitalised interest totalled Euro 37,300 thousand, of which Euro 2,735 thousand relating to the "term loan A" and Euro 34,565 thousand relating to the Convertible credit line.
The Restated Facilities Agreement requires, at the end of each half, the cash and cash equivalents (including the "revolving credit facility" line) exceeding Euro 50,000 thousand, to be used for the early repayment of the credit lines, starting with Tranche A and on a pro-rata basis on the expiries of the repayment plan, together with interest capitalised on the principal portion repaid early.
Based on the cash and cash equivalents as at December 31, 2019 and in consideration of the repayments of debt envisaged in the next 12 months, the company reclassified to current liabilities a portion of the debt for Euro 46,377 thousand, of which Euro 26,407 thousand as Cash sweep on cash and cash equivalents as at December 31, 2019 and Euro 19,970 thousand as at "Voluntary Prepayment" as also described in the section "Significant events after the close of the period". This additional prepayment involved, at the end of January 2020, the elimination of Tranche A and the associated capitalised interest.

16. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges amounted to Euro 83,584 thousand, an increase of Euro 7,376 thousand compared to December 31, 2018.
The size of the provision and the changes are summarised below:

(IN THOUSANDS OF EURO)	12.31.2018	ALLOCATIONS	USES	OTHER CHANGES	12.31.2019	OF WHICH CURRENT	OF WHICH NON-CURRENT
Dispute provision	**790**	**3,917**	**(428)**		**4,279**		**4,279**
Provision for redundancy and mobility incentives	**683**	**5,000**	**(334)**	**(290)**	**5,059**		**5,059**
Provision for sundry risks:	**74,735**	**12,187**	**(2,047)**	**(10,629)**	**74,246**	**3,731**	**70,515**
• site dismantling and restoration	65,154	9,887	(1,612)	(11,376)	62,053	1,900	60,153
• other	9,582	2,300	(435)	747	12,194	1,831	10,363
TOTAL PROVISIONS FOR RISKS AND CHARGES	76,208	21,104	(2,809)	(10,919)	83,584	3,731	79,853

The **allocations** in the period, amounting to Euro 21,104 thousand, increased the provisions, mainly owing to the following:

- Euro 4,823 thousand for the adjustment of the estimated future costs of dismantling the combined-cycle plants based on the change of the reference indexes of the inflation and discount rates;
- Euro 2,438 thousand for the adjustment of the estimated future costs of dismantling the traditional TV4 plant;
- Euro 2,626 thousand for the recognition of financial expenses pertaining to 2019 on provisions for the future expenses of dismantling of plants;
- Euro 5,000 thousand for the voluntary redundancy plan, valid for the 2020-2022 three-year period targeted at promoting a personnel turnover process, as per the determination of the General Manager communicated to employees in December 2019;
- Euro 470 thousand for the estimate of the damages caused by weather events to the Polo Ligure plants;

- Euro 3,718 thousand for expenses relating to requests for compensation for asbestos-related damages.

As regards **uses**, in relation to payments made during the year, the following should be noted in particular:

- Euro 1,417 thousand for the demolition of some parts of the coal plants;
- Euro 269 thousand as recognition of the electricity supply discount for personnel in service and retired personnel for the years 2017 and 2018;
- Euro 334 thousand for the residual amount provided to personnel in relation to the mobility procedure of December 6, 2016.

The **other changes** refer primarily:

i. to the write-off, of Euro 8,400 thousand, of the part of the provision for the dismantling and restoration of the Vado Ligure site, as a result of an appraisal for the recalculation of the amounts allocated previously for liabilities stemming from remediation obligations, an appraisal requested on the basis of the supplementary characterisation surveys performed on the site and the preliminary developments and the measures taken by the technical bodies and the competent authorities in response to the outcomes of these new surveys;

ii. to the release, of Euro 2,977 thousand, of the provision for the dismantling of the Vado Ligure coal units in relation to the new time-scales for use of the provision, partly over the next five years and partly at the end of the useful life of the entire site expected in 2037, with respect to the previous assumption which made provision for its short-term use.

The provision for other risks includes Euro 62,053 thousand for the estimated discounted costs expected to be incurred at the end of production activities of the Torrevaldaliga, Naples and Vado Ligure sites due to abandonment of the area, dismantling, removal of structures and restoration of the site in the presence of current obligations. The most significant outlays related to the dismantling and restoration works will be incurred over a period between 2025 and 2039.
The item "Provisions for other risks - Other", amounting to Euro 12,194 thousand, mainly includes Euro 5,055 thousand for imbalance charges of previous years, Euro 1,221 thousand for the risk of non-recognition of receivables relating to the wages guarantee fund and Euro 1,939 thousand for ICI/IMU disputes and, finally, Euro 1,005 thousand for the long-term incentive programme for managers.
The "dispute" provision includes liabilities that are estimated could result from ongoing legal disputes (mainly related to supply relations, work and the operation of the plants), according to the recommendations of the Company's internal and external legal representatives.
As for the asbestos dispute, for which Euro 4,260 thousand was allocated, note should be taken of the following updates with respect to what was detailed in the previous financial statements as at December 31, 2018:

1. Tirreno Power appealed at the legal proceedings together with INPS (national social security institute) and INAIL (national institute for insurance against accidents at work) for compensation for damages suffered by a former employee, deriving from the occupational illness reported by the plaintiff. On May 23, 2019, the Civil Court of Civitavecchia, Labour Section, issued a ruling under which it rejected the merits of the appeal submitted by the former employee, compensating legal expenses. Tirreno Power also filed an appeal against ruling no. 3774/2018 issued by the Civil Court of Naples in relation to the proceedings brought by a former employee for compensation for all pecuniary and non-pecuniary damages pursuant to art. 2087, that would have been suffered based on the contraction of lung cancer. The first hearing was set for April 1, 2020. For both of the proceedings indicated above, at the current state of play, it appears likely that the company will be the losing party, therefore, the allocations already made in the previous financial statements of Euro 542 thousand were confirmed.

2. In the last two months of 2019, the heirs of the former employees filed an appeal against Tirreno Power and ENEL S.p.A. for the request for compensation for all pecuniary and non-pecuniary damages and for the illness contracted by each of their relative former employees and allegedly attributable to the exposure to asbestos. As things stand, it appears likely that the companies will be the losing party, so an allocation of Euro 3,718 thousand was set aside.

17. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

They amounted to Euro 6,128 thousand and reflect the severance pay and other benefits accrued at year-end by employees that are valued according to actuarial criteria of IAS 19R laid out for defined benefit plans. In particular, as regards the economic and financial scenario, the parameters used for the evaluation are as follows:

POST-EMPLOYMENT BENEFITS	2019	2018
Annual technical discount rate	0.77%	1.57%
Annual inflation rate	1.20%	1.50%
Annual rate of increase in post-employment benefits	2.40%	2.63%
OTHER EMPLOYEE BENEFITS	2019	2018
Annual technical discount rate	0.77%	1.30%
Annual rate of salary increase	0.50%	0.50%

The following table illustrates the changes:

(IN THOUSANDS OF EURO)	POST-EMPLOYMENT BENEFITS	ENERGY DISCOUNT FOR RETIREES	SUBSTITUTE INDEMNITY - ELECTRICITY DISCOUNT	ADDITIONAL MONTHS' PAY	LOYALTY BONUSES	BOOK VALUE
Changes as at 12.31.2018 (A)	**4,421**	**7,003**	**530**	**538**	**442**	**12,934**
Curtailment		**-7,003**				**-7,003**
• Provisions				18	19	37
• Financial expenses (+)	51		6	6	4	67
• Gains (losses) from discounting (-/+)	194		-14	47	22	249
• Uses (-)	(142)				(15)	(157)
Total changes (B)	**103**	**(7,003)**	**(8)**	**71**	**30**	**(6,807)**
CHANGES AS AT 12.31.2019 (A+B)	4,524	0	522	609	472	6,128

The Curtailment refers to the effects of the termination, in accordance with the trade unions, of the collective regulation on concessions on the electricity tariff sales for personnel that have left the company and the surviving spouses of the former employee. For details, please refer to the information already outlined the Management Report. The liability, amounting to Euro 7,003 thousand as at December 31, 2018, was partly used for the replacement compensation paid to subscribers to the agreement and, for the surplus portion, recognised under other revenues.
Costs for employee benefits were also recognised in the year, amounting to Euro 104 thousand, of which Euro 67 thousand for interest recorded under financial expenses and Euro 37 thousand recorded under personnel costs.
Lastly, gains from discounting amounted to Euro 249 thousand and are recognised in the shareholders' equity reserve (net of taxes), excluding those relating to loyalty bonuses which are booked directly to the income statement.

As a result of the issuance of the new IAS 19 revised, the additional information is summarised in the tables below:

SENSITIVITY ANALYSIS OF THE MAIN VALUTATION PARAMETERS ON DATA AS AT 12.31.2019			
	POST-EMPLOYMENT BENEFITS	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNT INDEMNITY
Inflation rate +0.25%	4,578,332.83	N/A	N/A
Inflation rate -0.25%	4,470,408.01	N/A	N/A
Discount rate +0.25%	4,438,067.74	590,874.40	511,408.24
Discount rate -0.25%	4,612,408.04	627,335.98	533,905.94
	POST-EMPLOYMENT BENEFITS	ADDITIONAL MONTHS' PAY	ENERGY DISCOUNT INDEMNITY
Pro future service cost	-	19,139.97	-
Duration of the plan	10	10	10

The number of employees by category is shown in the following table:

(UNITS)	12.31.2018	ENTRIES	EXITS	OTHER/ RECLASSIFICATIONS	12.31.2019
Executives and Middle Managers	43		1	3	45
Employees	156		1	0	155
Workers	34			-3	31
TOTAL	233	0	2	0	231

18. DEFERRED TAX LIABILITIES

The item includes deferred taxes relating to costs not charged to the income statement, but deducted from taxable income in the tax return, as detailed in the following table:

(IN THOUSANDS OF EURO)	SITUATION AS AT 12.31.2018			SITUATION AS AT 12.31.2019
	BALANCE	PROVISIONS	USES	BALANCE
Deferred tax liabilities				
Amortisation	35,310		(1,687)	33,623
FV IAS 19 to shareholders' equity reserve	69			69
FV of derivative financial instruments to shareholders' equity	30	147	(30)	147
TOTAL DEFERRED TAX LIABILITIES	35,409	147	(1,687)	33,839

The uses of the item "Amortisation" refer to the completion of the time period of tax amortisation for IRES purposes, with respect to the economic-technical one (statutory amortisation).

19. OTHER NON-CURRENT LIABILITIES

The item, amounting to Euro 822 thousand, includes the non-current portion of the debt to the MATTM resulting from the settlement act signed in 2011 by means of which Tirreno Power was expressly and definitively freed from any obligation or liability in connection with the design and implementation of measures for the safety, environmental remediation and restoration of groundwater, surface water and marine sediments overlooking the site of Naples.

20. OTHER NON-CURRENT FINANCIAL LIABILITIES

The item, amounting to Euro 1,526 thousand, includes the non-current part of the financial payable recognised as a result of the application of new IFRS 16 - Leases, as already commented on in the introduction. The current part of the debt, amounting to Euro 587 thousand, was stated under other current financial liabilities.

CURRENT LIABILITIES

21. TRADE PAYABLES

"Trade payables", amounting to Euro 27,173 thousand, relate to fuel supplies, materials and equipment, tenders and services, as well as debts to TERNA and GME for supplies and activities carried out by December 31, 2019. The maturities of these debts are generally comprised between 30 and 120 days and duly respected.
The decrease of Euro 47,226 thousand is due primarily to lower purchases of energy and fuels in the last two months of the period compared to the last two in 2018. For more details on the changes, please refer to what was indicated previously in the management report in the section "Analysis of the capital structure".

22. PAYABLES FOR INCOME TAX

The item includes payables for IRES (Euro 2,500 thousand) and IRAP (Euro 6,300 thousand) determined by applying the rate in force to the estimated taxable income of 2019, net of IRAP advances paid (Euro 2,680 thousand).

23. OTHER CURRENT LIABILITIES

Other current liabilities, amounting to Euro 54,460 thousand, mainly refer to the payable relating to the to the expense pertaining to the year for CO_2 emissions rights (Euro 47,167 thousand) valued at weighted average purchase price.
The item also includes payables to employees and payables to social security, welfare and insurance institutions.
The table below provides a breakdown:

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES
Payables for CO_2 emission rights	47,167	32,357	14,810
Other taxes	748	781	(33)
Payables due to social security institutions	1,677	1,384	293
Payables due to personnel	2,304	2,025	279
Other	2,564	1,917	647
TOTAL OTHER CURRENT LIABILITIES	54,460	38,464	15,996

The increase in payables for emissions rights is attributable to the higher cost of purchase of CO_2 quotas as a result of the increase in the price of rights acquired in 2019, to comply with the redelivery obligations.
The item "Other" mainly includes the current portion of the payable due to the Ministry of the Environment and for Land and Sea Protection, as better specified in note no. 19, amounting to Euro 917 thousand.

24. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes, for Euro 624 thousand, the fair value of the financial derivative contracts in place as at December 31, 2019 to hedge fluctuations in the price of electricity for a notional 77 MWh and expiring in 2020.

Commitments and guarantees

Commitments to suppliers are detailed below:

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES
Tenders and miscellaneous supplies	66,514	67,210	(696)
Purchase of thermal fuel	19,434	21,503	(2,069)
TOTAL COMMITMENTS TO SUPPLIERS	85,948	88,713	(2,765)

Commitments for the purchase of thermal fuel relate exclusively to the term fixed on natural gas purchase contracts.
The sureties requested in favour of third parties, amounting to Euro 50,230 thousand, concern policies issued by banks and insurance companies, at the request of the Company, and relate mainly to the guarantee of the VAT credit (Euro 24,967 thousand), the guarantee of gas and energy supply contracts (Euro 18,582 thousand), the participation in the energy markets (Euro 4,370 thousand), as well as the guarantee for state concessions (Euro 2,227 thousand).
It should be noted that, in January 2020, the release of the insurance policies to guarantee the VAT credit was obtained for Euro 24,967 thousand.

NOTES TO THE INCOME STATEMENT

25. REVENUES
The table below provides a breakdown of sales revenues:

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES	%
Sale of energy:				
• Power Exchange	584,690	628,326	(43,636)	-7%
• Free market	73,970	448,751	(374,781)	-84%
• incentivised contributions - ex Green Certificates	6,517	9,390	(2,873)	-31%
• photovoltaic contributions	29	30	(1)	-3%
Total energy sales:	**665,206**	**1,086,497**	**(421,291)**	**-39%**
Other sales and services	1,338	700	638	91%
TOTAL REVENUES FROM SALES	666,544	1,087,197	(420,653)	-39%

Tirreno Power's commercial portfolio consists of two types of customers, customers that operate in the free market and those, instead, that operate on the Power Exchange. Revenues from Power Exchange sales include the results of trading on the dispatching services market. Sales on the free market instead refer to physical bilateral contracts.
The decrease in revenues on the open market is due primarily to the loss of the sales to guarantee the gas supply contract which, in the previous year, amounted to Euro 308,759 thousand.
The item "other sales and services" refers mainly to the insurance reimbursement relating to flood damage in 2017 to the Millesimo plant (Euro 1,040 thousand), the sale of materials derived from demolitions (Euro 129 thousand) and the sale of guarantees of origin (Euro 145 thousand).
For more details, as regards the changes with respect to December 31, 2018, please refer to the Management report.

26. OTHER REVENUES
"Other revenues" amounting to Euro 5,430 thousand refer primarily:

- to the release of the surplus energy discount provision as a result of the agreement signed on July 13, 2018 with the trade union organisations (Euro 3,379 thousand) and the close of the relative fair value (Euro 388 thousand);
- to the release of the voluntary redundancy provision (Euro 213 thousand);
- the repayment of the fee paid in 2015 on the transformation of DTAs to tax credit (Euro 179 thousand).

As regards the changes with respect to December 31, 2018, please refer to the Management report.

27. OWN WORK CAPITALISED
The item totalled Euro 769 thousand, relating primarily to the capitalisation of materials taken from the warehouse (Euro 402 thousand) and the capitalisation of internal resources at the time of the multi-year maintenance carried out in 2019 (Euro 367 thousand).

28. CONSUMPTION OF RAW MATERIALS

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES	%
Energy purchased on the Electricity Market	140,520	522,027	(381,507)	-73%
Purchase of fuel for heat production	225,334	352,964	(127,630)	-36%
Purchase of materials and other equipment	2,051	2,371	(320)	-13%
Change in fuel stocks	27	2	25	n.s.
Change in other stocks	5	(4)	9	n.s.
TOTAL CONSUMPTION OF RAW MATERIALS	367,936	877,359	(509,423)	-58%

The change is due primarily to lower expenses connected with the purchase of energy on the electricity market, down by Euro 381,507 thousand compared to 2018. This reduction derives primarily from lower purchases on the power exchange compared to those made in 2018 to cover sales to guarantee the gas supply contract.
The cost of fuel, relating exclusively to the natural gas supply contracts, was Euro 127,630 thousand lower than the cost incurred in 2018, due to both the volume effect and the price effect. For more details, please refer to the Management report.

29. PERSONNEL COSTS

Labour costs amounted to Euro 20,929 thousand, an increase of Euro 587 thousand compared to the figure recorded in 2018.
The increase derives mainly from the increase in the amount of meritocracy and productivity bonuses (Euro 344 thousand).
The headcount as at December 31, 2019 amounted to 231 employees, compared to 233 employees as at December 31, 2018.

30. SERVICE COSTS

Service costs, amounting to Euro 15,937 thousand, are detailed below:

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES	%
Costs of services and tenders	7,329	7,564	(234)	-3%
Expenses for transactions on the Electricity Market	1,195	1,448	(253)	-17%
Insurance costs	2,563	2,430	133	5%
Security, cleaning and other building costs	228	302	(74)	-25%
Waste disposal	293	470	(178)	-38%
IT services	1,392	1,358	34	3%
Telephone and data transmission expenses	422	412	10	3%
Other services	2,516	2,404	111	5%
TOTAL SERVICE COSTS	15,937	16,387	(450)	-3%

In particular, lower considerations were paid to the GME for transactions on the markets (Euro 237 thousand) following the loss of sales to cover the gas contract and the related energy purchases on the power exchange, as already outlined previously.
"Other services" mainly relate to costs for studies and consulting (Euro 1,064 thousand) costs for professional services (Euro 318 thousand), expenses for travel and training (Euro 602 thousand), the fees of the Statutory Auditors (Euro 182 thousand), as well as the remuneration to the auditing firm (Euro 135 thousand).

31. OTHER OPERATING COSTS

Other operating costs amounted to Euro 57,810 thousand, up by Euro 13,795 thousand compared to December 31, 2018.
The following table shows a breakdown of other operating costs:

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES	%
Contributions and fees	3,438	3,641	(204)	-6%
Provisions for risks and charges	2,229	3,080	(851)	-28%
Adjustment of value of materials and raw materials	820	62	758	n.d
Expenses for CO2 rights	47,167	32,357	14,810	46%
Taxes and duties	3,035	3,200	(165)	-5%
Other expenses	1,122	1,676	(554)	-33%
TOTAL OPERATING COSTS	57,810	44,016	13,795	31%

In particular, higher expenses were recorded for emissions rights (Euro 14,810 thousand). The negative price effect deriving from the increase in the PMP (weighted average price) of valuation of CO_2 which went from €/ton. 14.21 in 2018 to €/ton 23.55 in 2019, was only partially offset by a positive volume effect as a result of lower emissions.
As regards provisions for risks and charges, please refer to note no. 16.

32. AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The item refers to the depreciation/amortisation in the period, calculated on the basis of economic-technical rates.
The table below sets out the depreciation by type of asset compared with data for the previous year:

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES	%
Depreciation of buildings	5,157	7,701	(2,544)	-33%
Amortisation of rights of use	477	0	477	n.a.
Depreciation of plant and equipment	48,085	47,789	296	1%
Depreciation of industrial equipment	110	129	(19)	-15%
Depreciation of other assets	221	162	59	36%
Amortisation of intangible fixed assets	327	371	(44)	-12%
Write-downs of tangible fixed assets	0	16,204	(16,204)	n.a.
Write-downs of receivables	112	0	112	n.a.
TOTAL	54,490	72,357	(17,867)	-24.69%

33. FINANCIAL EXPENSES

Financial expenses amounted to Euro 16,712 thousand, a decrease of Euro 2,316 thousand compared to 2018. The following table shows a breakdown:

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES	%
Interest expenses and charges on loans	11,953	13,800	(1,846)	-13%
Financial expenses/income on Interest CAP	1,061	527	534	101%
Interest expenses for decommissioning, post-employment and other benefits	2,831	3,156	(325)	-10%
Other financial expenses	867	1,545	(678)	-44%
TOTAL FINANCIAL EXPENSES	16,712	19,028	(2,316)	-12%

The decrease is due to the effect of the accelerated repayment of the line Term Loan Tranche A, which took place as a result of the “Cash sweep” mechanism.
“Interest expense and charges on loans” relate exclusively to interest and fees accrued on the new loan.
“Financial expenses on Interest CAPs” relate to the hedging contract (Interest Rate CAP) on “Term Loan A”, extinguished as at December 31, 2019 and described in note no. 6.
“Interest expense for decommissioning”, amounting to Euro 2,626 thousand, was mainly offset by the site dismantling and restoration provisions, while the “interest on post-employment and other benefits” recognised in application of IAS 19R, stood at Euro 90 thousand.
The item “Other financial charges” refers essentially to the commissions on sureties of Euro 770 thousand, down compared to the previous year based on lower guarantees in place.

34. FINANCIAL INCOME

Financial income amounted to Euro 442 thousand, an increase of Euro 269 thousand compared to December 31, 2018, and refers mainly to interest accrued from the tax authorities on VAT credits for which a refund was requested (Euro 361 thousand).

35. INCOME TAXES

Taxes as at December 31, 2019, were a positive Euro 27,728 thousand and refer:

1. for Euro 2,500 thousand to the estimate of current IRES and, for Euro 6,300 thousand, to the estimate of current IRAP (regional business tax), calculated on taxable income. As regards IRES, the taxable income was decreased, firstly by the recovery of previous tax losses (to the maximum extent permitted by the applicable legislation, i.e. 80%) and for the remainder by the recovery of the excess ACE (aid for economic growth) deduction deriving from the current year and previous years;
2. for Euro 34,822 thousand, to the positive effect of the deferred tax assets originated during the current year and in previous years estimated to be recoverable in the period up until 2023, the year in which the current regulated Capacity Market system will expire. For more details, please refer to note no. 4;
3. for Euro 1,687 thousand, to the positive effect relating to the use of the deferred tax liabilities generated on previous excess and early tax amortisation.

(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES
IRES	2,500		2,500
IRAP	6,300	2,700	3,600
Deferred tax assets	(34,822)		(34,822)
Deferred tax liabilities	(1,687)	(906)	(781)
Taxes of previous years	(18)		(18)
TOTAL	(27,727)	1,794	(29,521)

The reconciliation between the theoretical and effective tax rates is presented below:

IRES	TAXABLE	TAX	%
Pre-tax result (A)	**139,371**		
Theoretical rate			**24.00%**
Theoretical taxation		**33,449**	
Increases in taxable income	13,900	3,336	
Decreases in taxable income	(33,250)	(7,980)	
10% IRAP (regional business tax) deduction and ACE (aid for economic growth)	(3,063)	(735)	
Recovery of tax losses	(106,542)	(25,570)	
TAXABLE INCOME	10,416		
ACTUAL TAX (B)		2,500	
ACTUAL RATE (B/A)			1.79%

IRAP	VALUES	TAXATION	%
Pre-tax result (C)	**158,690**		
Theoretical rate			**4.84%**
Theoretical taxation		**7,681**	
Increases in taxable income	3,350	162	
Decreases in taxable income	(31,900)	(1,543)	
TAX RESULT	130,140		
ACTUAL TAX (D)		6,300	
ACTUAL RATE (D/C)			3.97%

36. EARNINGS PER SHARE

For the calculation of earnings per share, the net profit attributed to shareholders was considered. The denominator used in the calculation is the number of shares issued, in the calculation of both basic and diluted earnings per share, as there are no dilutive effects as at December 31, 2019 or December 31, 2018.

(VALUES IN EURO)	PERIOD ENDED AS AT 12.31.2019	PERIOD ENDED AS AT 12.31.2018
Net income for the period	167,098,912	40,195,996
Average number ordinary shares (units)	60,516,142	60,516,142
Earnings per share - basic and diluted	2.76	0.66

37. NET FINANCIAL POSITION

The net financial position as at December 31, 2019 is detailed as follows:

	(IN THOUSANDS OF EURO)	12.31.2019	12.31.2018	CHANGES
A	Cash at bank and in hand	18	21	(3)
B	Bank deposits	26,407	24,904	1,503
C	Securities	-	-	-
D	**Total cash and cash equivalents (A+B+C)**	**26,424**	**24,926**	**1,498**
E	**Current financial receivables**	**-**	**-**	**-**
F	Current bank payables			-
G	Current portion of non-current debt			-
H	Other current financial liabilities	(46,377)	(52,966)	6,589
I	**Total short-term financial liabilities (F+G+H)**	**(46,377)**	**(52,966)**	**6,589**
J	**Net current financial position (D+E+I)**	**(19,953)**	**(28,041)**	**8,088**
K	**Non-current financial receivables**	**-**	**-**	**-**
L	Non-current bank payables	(284,565)	(416,238)	131,673
M	Other non-current payables	-	-	-
N	**Non-current financial debt (L+M)**	**(284,565)**	**(416,238)**	**131,673**
O	**Net non-current financial position (K+N)**	**(284,565)**	**(416,238)**	**131,673**
P	OVERALL NET FINANCIAL POSITION (J+O)	(304,518)	(444,278)	139,760

38. OTHER INFORMATION

38.0 CASH FLOWS

OPENING CASH AND CASH EQUIVALENTS	12.31.2019	12.31.2018	CHANGES
Opening cash and cash equivalents	**24,926**	**11,676**	**13,250**
Cash Flow from operating activities	164,674	66,546	98,128
Cash Flow from investment activities	(24,468)	(13,498)	(10,970)
Cash Flow from financing activities	(138,707)	(39,798)	(98,910)
CLOSING CASH AND CASH EQUIVALENTS	26,424	24,926	1,498

The cash flow from operations stood at a positive Euro 164,674 thousand, marking an increase of Euro 98,128 thousand compared to the previous year. The increase is due to better results in the year as well as higher VAT refunds. In 2019, the annual 2017 VAT credit was collected (Euro 33,000 thousand) and the VAT credit relating to the third quarter of 2018 (Euro 11,900 thousand), while no VAT credit collections were recorded in 2018.
The cash flow from operations allowed the coverage of investment activities (Euro 24,468 thousand) as well as a reduction in net financial debt of Euro 138,261 thousand and the payment of the financial liability recorded based on IFRS 16 (Euro 446 thousand).
The reduction in net financial debt is the result of the amount of tranche A repaid in the year in terms of principal and interest (Euro 145,426 thousand), and the hedging line (Euro 1,385 thousand), partially offset by the increase deriving from the capitalisation of financial expenses in the year totalling Euro 8,550 thousand.

Cash and cash equivalents amounted to Euro 24,926 thousand as at December 31, 2018, an increase of Euro 1,498 thousand as a result of the aforementioned changes and amounted to Euro 26,424 thousand as at December 31, 2019.
Net financial debt decreased from Euro 444,278 thousand as at December 31, 2018 to Euro 304,518 thousand as at December 31, 2019.

38.1 RELATIONSHIPS WITH SUBSIDIARIES, AFFILIATES, PARENT COMPANIES AND COMPANIES CONTROLLED BY THE LATTER

Any transactions carried out with other related parties, as described below, were carried out under normal market conditions and in the interest of each company:

(THOUSANDS OF EURO)	RECEIVABLES 12.31.2019	PAYABLES 12.31.2019	COSTS 12.31.2019	REVENUES 12.31.2019
Financial				
ENGIE ITALIA Spa				
Tax transparency	1,210			
ENERGIA ITALIANA S.p.A.				
Tax transparency	796			
Trade				
Sorgenia Trading Spa	187			732
Sorgenia S.p.A.				165
Sorgenia Sviluppo Srl		55	90	

Loans to shareholders, amounting to Euro 2,006 thousand, relate to IRES (corporate income tax) refund requests for non-IRAP deductions, presented when the Company signed up to the tax transparency regime in accordance with art. 115 of the Consolidated Law on Income Tax.
Commercial items due to Sorgenia Trading S.p.A. instead relate to the sales of energy.

38.2 CONTINGENT ASSETS AND LIABILITIES
There are no additional contingent assets and liabilities to be highlighted arising from events that occurred during the year 2019, in addition to what has already been reported in the Management Report and in the notes.
With regards to the contingent liabilities arising from the proceedings pending at the Prosecutor's Office of Savona, please refer to the section "Disclosure regarding criminal proceedings of the Vado Ligure site". As of today, also taking into account the opinion of the legal advisors assisting the company, since the preliminary investigation has still not addressed the technical issues which are relevant for the purposes of the charge and the discussion of the civil parties has still not reached an outcome, the risk of being the losing party must be considered possible and the compensation for which the Company is liable, deriving from the pending criminal proceedings cannot be forecast.

38.3 ATYPICAL AND UNUSUAL TRANSACTIONS
There were no atypical or unusual transactions, or outside normal company operations or able to significantly impact the Company's financial position.

38.4 SIGNIFICANT EVENTS AFTER THE CLOSE OF THE PERIOD
Please refer to the relevant section of the Management report.

38.5 PROPOSED ALLOCATION OF PROFIT FOR THE YEAR
Please refer to the section "Proposals of the Board of Directors" of the Management report.

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